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31 January 1983

East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2363

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LACK OF CAPITAL MAINTENANCE CRITICIZED BY MINISTER

Prague HOSPODARSKE NOVINY in Czech 12 Nov 82 pp 1,3

[Article by Jaroslav Tlapak, minister of finance of the CSR: "How Are We Managing our National Assets?"]

[Text] The material-technological base existing in the CSSR, most of which has been created in the process of the building of socialism, puts us in the ranks of the economically developed countries in the world. The capital assets and supplies on the territory of the CSR alone -- in other words, material national assets owned at present by our socialist state amount to almost Kcs 2.2 trillion. This confirms beyond any doubt that our society is rich and that it provides the basis for the high living standard of our people. This common fund of national assets is managed by thousands of organizations which are using it to fulfill their planned tasks in every area of our economic, cultural and social life. For that reason, the management system as well as political tools, such as indoctrination must be used to teach all our working people to care for our national assets as for their own property. However, managers have the most important duties because within their authority they are fully accountable for the values entrusted to the organizations in their administration as well as for the safety, use and good stewardship of such goods.

An analysis of the accumulation of resources and of the funds spent for their formation during the Sixth 5-Year Plan has shown that despite certain positive achievements of the CSR national economy, we have failed to make intensive and efficient use of our national assets. During that period the standard of utilization of capital assets declined as may be demonstrated, for instance, by the lower rate of replaced machinery which amounted to 1,293 in 1975 while in 1980 dropped to 1,281.

The unsatisfactory development of the standard of utilization of capital assets further increased the share of construction projects in the total value of capital assets which is high in comparison with other industrially advanced countries. Due to the depreciation of construction projects and buildings, the disadvantageous structure of capital assets has disproportionately encumbered the costs of produced goods.

Excessive amounts of material values in the process of reproduction depend on supplies. In relation to produced goods, our national economy is operating with more supplies than, for example, the USSR and many other industrially advanced countries.

This situation stems from inferior organization of consumer-supplier relations, from the quality and structure of production and supplies and to a major extent also from their mismanaged utilization. The VHJ [economic production units] have not consistently fulfilled their main task of providing regular supplies of the required selection of goods to other areas of our national economy and for our domestic market. Improved marketing and better condition and structure of supplies are directly linked here with the consumed national income, because every fraction of supplies represents values in billions of Kcs.

Shortcomings in Investments

Capital investment is an important factor affecting the extent, structure, technical standard and efficient utilization of capital assets. During the Sixth 5-Year Plan, new capital assets worth Kcs 425 billion have been gained on the territory of the CSR. However, this process did not generate uniformly positive aspects but was accompanied by certain negative phenomena whose consequences lowered the standard of utilization of capital assets and slowed down the process of intensification of our national economy. In some instances the VHJ and enterprises are implementing their investment plans and other programs in the process of reproduction without having thoroughly analyzed the condition and standards of utilization of existing capital assets and supplies. Furthermore, they underestimate the importance of economic calculations for further efficient development of enterprises, VHJ and the entire national economy. Enormous public funds are being laid out for capital investment and managers in charge are not investigating their return and their effect on the creation of national income.

Serious problems in the process of capital investment have also occurred in the nonproduction sphere. Every year our socialist society applies a significant part of our national income to satisfy the needs of our population. Roughly Kcs 30 billion from societywide resources are expended annually for education, health services and culture in the CSR. About Kcs 10 billion is earmarked every year from the state budget for housing construction and extensive funds are spent for services benefiting our public. By the same token, we must realize that a major part of our expenditures for social consumption consists of costs for maintenance and construction of facilities serving the material and cultural needs of our citizens. Therefore, whenever material assets in those branches of our national economy are mismanaged, the satisfaction of personal needs of our citizens deteriorates, becomes the subject of frequent justified social criticism and in addition, it siphons off material and financial resources which should be used for more effective societywide purposes.

An audit conducted by the Ministry of Finance and its control agencies confirmed all the above-mentioned facts which had unfavorably affected the course of our national economic development during the Sixth 5-Year Plan and which are still in evidence. Serious shortcomings have also been ascertained in the planning and building of capital investment. State organizations supervising completion of new capital investment failed to provide sufficiently advantageous conditions for its full utilization. Far from rare were instances where sophisticated modern machinery and equipment as well as buildings were acquired irrespective of their potential full utilization. In particular,

machinery and equipment which cost our society a great deal of money and which are not put into operation rapidly become obsolete and deteriorate, and their value is not reflected in new products. Delays in putting machinery and equipment into operation often lead to needless expiration of guarantee and, thus, the right to submit claims concerning the supplier's liability for defects expires. This unduly increases the consumer's expenses for repairs. This is particularly damaging in case of imported technology.

Legal Amendment No. 153/1980 of the Collection contained in the announcement by the Federal Ministry of Finance on penalties for delays in operation of imported machinery, apparatus, equipment, means of transportation and investment units urges elimination of such negative phenomena. Its purpose is to increase demands on our state organizations and their employees and make them accountable for the selection and acquisition of imported machinery and equipment and for using them promptly.

Consistent implementation of this legal regulation calls for more disciplined planning and management by our state organizations. At the same time, every ascertained violation of this regulation must bring about effective measures to prevent any future delay in putting imported machinery into operation.

Negligent Maintenance and Repairs

Careless maintenance of capital assets affects their use. In their efforts to meet the planned costs, managers frequently overlook the fact that negligent maintenance and disrepair of capital assets reduce their useful life and require much higher funds for the procurement of new capital assets later. This practice in fulfilling economic tasks is shortsighted and our socialist society must pay too much for temporary savings gained in this way by the organization.

Failure of our state organizations to systematically keep track of surplus and unusable national assets also affects underutilization of capital assets. In fact, capital assets unused over an extended period, sometimes for several years, are also on record. Equally serious shortcomings stem from the fact that our organizations may formally remove unused capital assets from their inventories and then fail to follow regulations concerning their further disposition, although capital assets could frequently be used by other socialist organizations. On the other hand, in some notorious cases organizations eliminated even capital assets whose residual value was still relatively high and which still had relatively long useful life.

Acquisition and utilization of capital assets in the nonproduction sphere calls for far more attention than thus far.

Our society spends considerable funds, for example, to acquire new housing units and it is, therefore, absolutely imperative that such assets be utilized with utmost efficiency. This concerns more than prompt and uniform completion of housing units in required quality and their prompt transfer to their users. Our objective must be to build civic and technical facilities and complete them promptly with the housing units, which guarantees high housing standard and contributes to the satisfaction of our population. Alas, this is not always the case, thus causing many needless problems.

Kcs 700 Million for Landmarks

Audits have shown that the sector of administration, maintenance and use of immovable cultural landmarks needs many improvements. More than Kcs 700 from the CSR state budget and from the budgets of national committees have been allocated every year for the maintenance and repair of about 33,000 registered landmarks on the territory of the CSR. Those investments must be used more prudently and efficiently.

Such enormous funds by themselves suggest that the conditions of the landmark fund should improve substantially by proper management of such funds, by a more deliberate and efficient selection of landmarks which require repair and maintenance work, and by more scrupulous control, especially of the quality and method of the work performed. By the same token, it is imperative that more cultural and historical centers of our towns and other landmarks be entrusted to socialist organizations for proper maintenance and efficient use for current needs of our society. I primarily have in mind organization of social welfare, the apprentice school system, health care, trade, tourism, etc.

After all, many good examples have confirmed that this objective is correct and should be enforced and promoted. The castle in Vrchlabi is operated as a facility of the Krkonose National Park Administration, the patrician houses on the town square in Jihlava serve as Tuzex stores, etc. At the same time, we must demand more emphatically that socialist organizations managing our historical and cultural landmarks act as good stewards and take good care of them. This applies primarily to agricultural, commercial and other organizations.

Problems with the Accumulation of Supplies

Serious shortcomings have been ascertained in the situation of supplies. During the Sixth 5-Year Plan the standard of utilization of supplies was adversely affected by problems related to the irregular development of their accumulation. Many branches of our national economy stockpiled excessive and unneeded supplies and administrative organizations were unable to deploy such supplies flexibly and proportionally in accordance with actual needs of the VHJ and enterprises. The trouble is that the principles of standardization of supplies, which were supposed to help upgrade the standard of their utilization, have not found acceptance as a comprehensive method for a rational change of their structure.

The main point of departure toward improvement of the supply situation is the effort to achieve an overall balance and continuity of economic processes in agreement with specific conditions, on the one hand, and the needs of our society, on the other hand. Standardization plays an important role here. The level of standards must facilitate demonstrable changes in the development of efficiency. More favorable preconditions for reducing unused supplies and for their return in the process of reproduction are the objective of a new legal amendment on the treatment of this type of surplus national assets. The amendment appears in the announcement on procedures with unused supplies No. 49/181 issued by the State Planning Commission and the CSSR State Arbitration. Certain authorities must help enforce this new legal amendment

in the economy and from organizations under control obtain specifications of all unused supplies (surplus, excessive, unneeded and specifications of effective programs for their consumption in accordance with the implementation of planned production tasks.

Supplies already used in the process of reproduction and considered for physical liquidation as unusable capital assets also represent considerable values. Our citizens may still use many such goods and wish to purchase them from our state organizations, however, legal regulations in force prohibit direct sale to citizens and intermediary organizations (such as Bazar) do not sell such goods. This problem occurs especially after construction projects are completed and odds and ends of various materials (timber, cables, wire, etc.) are left on construction sites.

Such problems must be dealt with in terms of economy and social needs because our working people are critical precisely of such inefficient management with our national property.

Disregard for Regulations

During the audit, our financial agencies paid special attention to the stewardship of our national property by our state organizations and to their application of all available legal and technical methods protecting such assets against destruction, damage or theft. They were particularly concerned about basic procedures, in other words, how our state organizations observe regulations which stipulate their rights and duties, and thus control the management of our national property according to societywide interest and needs.

According to those legal regulations, our state organizations must obtain accurate and complete inventories of all sectors of national property entrusted to their management. The data received confirmed that violations of this duty hamper the process of replacement and foster antisocial activity. Whenever inventories of national property do not correctly reflect the changes in the structure of economic assets which take place after economic transactions, the managers in charge cannot properly recognize the condition and deployment of machinery and equipment and the situation and turnover of supplies; the standard of decisions concerning their utilization declines and there is no basis for planned maintenance, repairs, etc.

At the same time, we cannot conceal the fact that the shortcomings ascertained in this sector are entirely subjective and that they stem mainly from irresponsible approaches by the managers of our state organizations whom, in fact, the legal regulations in force obligate to stipulate the subject of inventorymaking as well as the method of inventorykeeping for the protection of our national assets.

Our state organizations must make inventories of economic assets to verify the accuracy and completeness of the data on record and their conformity with the actual situation of national assets. Although inventorytaking represents an important control policy, many instances are on record where legal regulations controlling such procedures have not been observed. In terms of cadres and

organization, inventories are not always properly planned and promptly conducted, nor do they include the sum total of economic assets, irrespective of their value and importance.

Our state organizations must pay special attention to the completion of inventorytaking, i.e., they must determine and balance the differences in inventories -- losses, damages and surplus. We cannot tolerate approaches which deduct ascertained losses or shortages from the costs of the enterprise without determining precisely whether and to what extent have they been caused by accountable employees. Every act of such negligence and indulgence is adversely reflected in the overall economic results of our state organizations and moreover, it undermines the discipline of our working people.

The results of the audit have shown that, in view of their nature, supplies are particularly susceptible to the danger of sustaining often avoidable losses, mainly due to their inadequate protection against access of unauthorized persons and against unfavorable weather conditions. This not only causes financial losses, but also encouraged dishonest citizens who want to take advantage of other people's honest work and who do not shirk even from such antisocial acts as pilferage of property in socialist ownership. Our state organizations are not using effectively the legal recourses available for the protection of our national property; in particular, they are not consistent in demanding that employees in charge sign written agreement concerning their financial accountability for the cash, valuables, goods, supplies, materials or other values which have been entrusted to them and for which they are responsible. That not only lowers the standard of protection of our economic assets but above all reduces the chances of our state organizations to request compensation for damages.

Maintenance of the Housing Fund

Due protection, prompt repairs and regular maintenance of our capital assets may extend their useful life and save our society enormous financial and material funds. Especially urgent is proper protection of capital assets used by our citizens and providing material preconditions for the satisfaction of their personal needs. It is axiomatic that our housing fund holds one of the most relevant positions among capital assets. More attention must be focused here on the work of organizations of housing administration now managing more than 1 million housing units valued at Kcs 130 billion. Managers must primarily be obligated to manage the housing fund scrupulously and carefully, to the satisfaction of its users.

For these purposes, our society allocates from the state budget more than Kcs 6 billion, which is a sufficient amount to enable organizations of housing administration to meet their tasks of managing the housing fund better than at present. This calls for planned, efficient, expedient and prompt use of the capital and for construction and maintenance of facilities for systematic upkeep and repairs. By the same token, it is absolutely imperative to demand better control of the quality and amount of work performed, to drastically reduce administrative costs and to enforce more emphatically good stewardship in every sector. Accountable employees who have failed to fulfill their duties must be fully penalized according to the stipulations of labor laws.

Furthermore, it is very important that many organizations of housing administration are still underestimating the urgent need for modernization of the outdated housing fund. Tasks outlined in this direction have been far from fulfilled.

All the above-mentioned problems, shortcomings and deficiencies ascertained by our financial authorities during the audit are hampering to various degrees the process of facilitating an accelerated transition of our economy from extensive to intensive development. Several specific examples show us that inadequate management of the material base of our state organizations, and its development and use has negatively affected its economic achievements, and what is even more meaningful, on the whole also the achievements of our entire national economy and the living standard of our working people. The CSR Government, therefore, discussed last summer the problems appearing in the management of our national assets and ordered that all central agencies and national committees resolve these shortcomings systematically, scrupulously and completely. This may be achieved by a comprehensive approach to the planning of economic processes, by better quality of direct management and methodical work, by systematic control focused on rigorous conformity with legal regulations and by penalties and sanctions for their violation, disregard or evasion.

The method of enterprise and enterprise-subdivision *khozrashchet* implemented in the VHI is especially important for better performance of the management of our national property and its care. Only thus may full responsibility for the results of the management with our national assets be enforced and combined with economic incentives for the teams as well as for every employee to whose care material and other goods in the management of our state organizations have been entrusted. We must not fail to learn how to use the wage fund so that no really good, flawless and socially beneficial work goes unappreciated; on the contrary, all those who are unwilling or unable to work must feel the consequences in their own pocket.

What Is the Ministry Doing

The Ministry of Finance will play a relevant and meaningful role in the fulfillment of these objectives. Its financial planning and allocation of capital are linked with the planning, implementation and achievements in the fulfillment of planned tasks and on that basis it will strive to facilitate efficient acquisition and prudent utilization of all factors of our national property. By means of financial policies, it will enforce *khozrashchet* principles in accordance with the aims of the Set of Measures for Improving the Planned System of National Economy and upgrade economic incentives of enterprises and enterprise subdivisions by linking them with their economic achievements.

Its methodical and organizational program will promote initiative in transactions with other central agencies and national committees in order to coordinate action in every sector of operations of the management of our national property. Its objective is to interpret the laws regulating the management of our national property uniformly and accurately and, thus, to promote good stewardship and utilization of material assets.

The CSR Ministry of Finance stresses especially the organization and implementation of control operations. It will systematically focus the contents of its own periodical audits of management as well as regulation of the subjects of periodical audit of management in the branches of the ministry and KNV [Regional National Committees], and audit and control conducted by financial administration on the situation of management of national property and on the standard of management in terms of the fulfillment of planned tasks. The purpose of control by financial agencies is to remedy and prevent specific shortcomings in order to eradicate their causes.

We intend to upgrade the management of our national property and protect it in such a way as to see increasingly more evidence of the fact that the enormous values which jointly belong to all of us are really in the hands of conscientious managers.

9004

CSO: 2400/66

1981-1985 LIVESTOCK PRODUCTION GOALS OUTLINED

Prague NAS CHOV in Czech No 11, Nov 82 pp 437-438

[Article by Eng VMD Josef Krecek, director of Agricultural Production Department of the Federal Ministry of Agriculture and Food: "The Trend in Livestock Production during the Seventh 5-Year Plan"]

[Text] In drafting the plan for the development of the agricultural-food complex during the Seventh 5-Year Plan which was completed in the course of the first half of this year, the work on determining a balanced livestock production, backed up by appropriate inputs, proved to be the most demanding. Its complexity and also the demanding nature of the proposed directions of development of livestock production and of individual tasks as specified in the guideline for individual years of the Seventh 5-Year Plan is evident from the comprehensive comparison of these tasks and of the external and internal conditions of their implementation with the previous period and particularly with the Sixth 5-Year Plan. This comparison is also proper because the present development of livestock production has been considerably affected by the level attained in this sector primarily in the fifth and sixth 5-year plans.

The typical feature of the 1970's was the very dynamic increase in our livestock production. This is documented not only by the data on the increase in the number of basic types of domestic animals and by most of the utility indicators, but also by the data on the marketable production increase in individual years of this period. Thus, for example, the market production of slaughter animals (excluding poultry) in the last year of the Sixth 5-Year Plan surpassed the 1970 level by 48.9 percent. The purchase of slaughter cattle increased 32.3 percent and of slaughter pigs 77.6 percent. The purchases of slaughter poultry increased 108.7 percent, of eggs for direct sale to consumers, 39.5 percent, while the annual milk purchases increased almost 40 percent during the 1970-1980 period.

The growth rates in individual branches of livestock production reflected in production for the market made possible, despite the systematic reduction of quantities left to the producers for their own consumption, increases in meat consumption per capita from 71.9 kg in 1970 to 85.7 kg in 1980, of milk from 196.2 to 230.0 liters and of eggs for direct consumption from

277 to 300. It must be regarded as a favorable fact that full self-sufficiency had been reached in regard to all these consumer indicators and as to slaughter poultry and eggs there was even temporary overproduction even from the first years of the Fifth 5-Year Plan.

The conclusions of the 14th and 15th CPCZ congress which ordered the needs of basic food, particularly of meat, to be covered by domestic production were thus essentially implemented.

At the same time, the production basis was consolidated--the numbers of basic types of domestic animals were increased to such an extent that they also provided for their stabilization during the next period. Thus, for example, the number of cattle increased more than 80,000, of pigs more than 2.5 million including 150,000 sows, and of poultry by 13 million during the last two 5-year plans. There was, however, no increase in the number of cows and sheep, which remained unchanged over a long period.

The then existing basis and its utility potential fully met the requirements to further stabilize the market in terms of basic foodstuffs, particularly meat.

A weak spot of this development, however, was the relatively high consumption of fodder, particularly grain fodder. This relatively large consumption of fodder exceeds the possibilities of our agricultural land and climatic conditions.

During the Sixth 5-Year Plan alone, this demanding increase in livestock production necessitated imports on the average of 24 percent of total consumption of grain for fodder, almost 79 percent of forage cakes and over 41 percent of fodder prepared from animal meal. The negative consequences of this situation manifested themselves primarily in the past development of our livestock production which consistently depended upon considerable imports of grain for fodder and other basic components, and thus also on the political-economic development of the world market.

The measure of dependence of this development of livestock production on the world market during the Sixth 5-Year Plan is evident from the computation of the total value of imported fodder necessary for meat production. It reveals that the production of a kilogram of meat in our country required Kcs 5.60 in foreign exchange.

These unfavorable influences were reflected even more in poor crop years, that is, two or three times in the course of every 5-year plan.

For this reason, a structure of livestock production was sought which would at least partly reduce the needs of imported grain fodder and would be based more on the possibilities of the agricultural land in our country--on bulk fodder. The analysis in depth of our biological, production and national economic possibilities then served as the basis for the resolutions of the 13th Plenum of the CPCZ Central Committee in March 1979 which emphasized the

intensification of livestock production in all sectors with priority assigned to the increase in cattle breeding.

The high degree of vulnerability of this direction of development of livestock production and thus also of the entire national economy was again confirmed even in the first year of the Seventh 5-Year Plan, when it was necessary to cope with a deficit of 1.6 million tons of grain feed.

This year has made it definitely clear that the present demanding development of livestock production cannot continue, primarily because of the changed external conditions of the Seventh 5-Year Plan. It has thus become imperative to lay down a direction for the development of this sector which will primarily rely upon the domestic fodder supply.

Accordingly, the guideline for the Seventh 5-Year Plan enjoined the production sector to secure the following per capita consumption per year: 80.5 kg of meat, 231 liters of milk and milk products, and 322 eggs. This means that market production of slaughter animals in the last year of the Seventh 5-Year Plan should amount to 96.7 percent, of slaughter poultry to 99.7 percent, of milk to 105.5 percent and of eggs to 107.7 percent of the actual level of 1980. Nevertheless, by the end of the Seventh 5-Year Plan market production of slaughter pigs should be 12.1 percent below and of slaughter cattle 3.2 percent above the level reached in the last year of the Sixth 5-Year Plan. These targets, however, will have to be met with considerably reduced inputs, particularly of grain fodder.

The goal, thus, is the stabilization of meat consumption at a somewhat lower level than at the end of the previous 5-year plan, while slightly increasing the proportion of beef and poultry in the diet.

In view of the rather good satisfaction of demand for milk and eggs, only small increases in their production must be anticipated, while exploring the ways of improving the offered assortment of milk and egg products, and of more effective processing of raw materials.

The directions of livestock production based on the expanded breeding of cattle are directly reflected in crop production.

The need of developing sources of fodder necessary for expanded cattle breeding and other tasks in crop production make it imperative to make more intensive use of all land. For this reason, too, investments in land, soil improvement and irrigation have been assigned priority among the investment projects in the Seventh 5-Year Plan. They should help increase the supply of bulk fodder by 14 percent and of grain fodder by 8 percent. It is anticipated that the expanded cattle breeding and its intensification will be achieved primarily by the better quality and better structure of bulk fodder.

All unified agricultural cooperatives [JZD] and state farms will have to improve their fodder basis according to the plan particularly in regard to

the structure of fodder produced, to enforce technological discipline in its preservation and storage, and to achieve rational consumption in feeding individual categories of cattle. This means that cattle breeding and development of fodder resources must be put on scientific foundations, all agricultural enterprises must pay as much attention to the production of fodder as to the production of grain and truck crops, and plan the areas for and structure of specific types of fodder according to their actual nutritional value.

Within the sectorial system of management, the principle must be observed of turning over fodder from crop production to livestock production according to the qualitative indicators.

Every agricultural enterprise must secure for each cattle unit and year that quantity of bulk fodder which corresponds to 5 tons of dry fodder, including 0.5 tons of quality hay.

To compensate for yearly fluctuations, it is necessary for all agricultural enterprises to set up at least a 10 percent reserve of preserved bulk fodder.

The grazing of cattle as the cheapest and most effective form of harvesting and utilization of pastures, particularly in the foothill regions, must be expanded more rapidly than in the past.

The goal of all these measures will be the statewide attainment of average daily weight gain for cattle being fattened at least on the level reached during the fifth and sixth 5-year plans. A fundamental turnabout must also be achieved in the more effective use of weight of slaughtered cattle. Here we face the task of gradually increasing average weight to over 500 kilograms, in other words to slaughter the cattle approximately 40 kilograms heavier than is the case today.

We shall produce milk from the present quality of cows which we have. The attainment of planned production will not require a more significant increase in the number of cows. It will be rather a matter of more effective exploitation of their utility and of responsible, more balanced distribution of cattle throughout all krajs and districts. It is not feasible to further increase the numbers of cows and milk and meat production only in the traditional regions. All land must be used for production according to its actual production capacity.

The implementation of these production objectives must be effectively assisted by the breeding service which will also in the future consistently concentrate on maintaining two-thirds of breeders as dual-purpose beef and dairy type animals with emphasis on high-quality meat.

The principal task in pig and poultry breeding is to increase production intensification primarily by increasing daily weight gains and shortening fattening periods while reducing the standard consumption of grain fodder.

In this context, we also anticipate the mobilization of breeding and nursing care and wider application of comprehensive veterinary prevention which should eventually eliminate the existing differences between the best and lagging agricultural enterprises in regard to daily weight gains and consumption of grain fodder per unit of production.

To improve the quality of meat cuts, the hybridization program in pig breeding, so successful so far, will continue in the future. Since the production of slaughter pigs and thus also of lard will be smaller, it will also be necessary to regulate the type structure of the basic pig herd.

In addition to the expansion and consolidation of large-scale livestock production which is and will be the decisive guarantee of sources of meat, milk, eggs and other animal products, we anticipate increased production of animal products on the basis of contracts with backyard farmers, employees of state farms and a small-scale breeders.

The contracts will provide for increased breeding of cattle, sheep, rabbits and poultry by making more effective use of the land and, by reducing the demand for grain fodder, will contribute to the enrichment of the assortment.

The legal and material prerequisites for the expansion of production under contracts have already been solved. The point at issue will be the correct interpretation of these socially desirable directions and more active assistance particularly of workers of the national committees and all interested units in the implementation of contracted production.

10501
CSO: 2400/87

DATA ON INVESTMENTS, EMPLOYMENT PUBLISHED

Investment Outlays

Warsaw RZECZPOSPOLITA in Polish 2 Dec 82 p 4

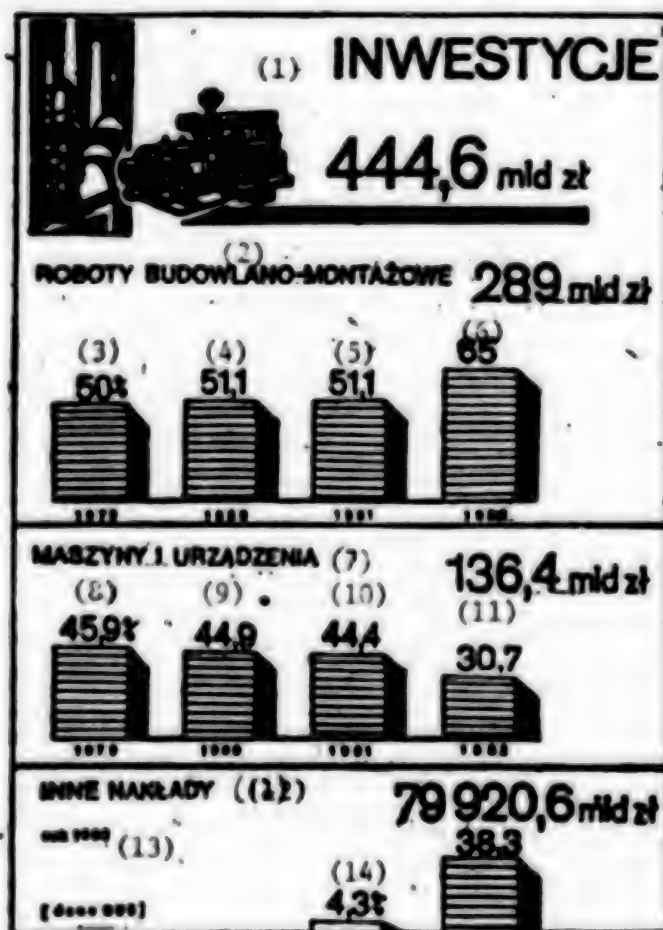
[Article by (a) (From GUS information): "Facts, Figures, Comparisons"]

[Text] Key: (1) Investments--
444.6 billion zlotys
(2) Construction and Assembly Work--
289 billion zlotys
(3) 50%--1979
(4) 51.1%--1980
(5) 51.1%--1981
(6) 65%--1982

(7) Machines and Equipment--136.4
billion zlotys
(8) 45.9%--1979
(9) 44.9%--1980
(10) 44.4%--1981
(11) 30.7%--1982

(12) Other Outlays--79 920.6 billion
zlotys
(13) 38.3%--1982
(14) 4.3%--
[GUS data]

This year's investment outlays have been established on the level of 444.6 billion zlotys. The majority of these outlays, namely as much as 65 percent, is to be absorbed by construction and assembly works, for which 289 billion zlotys have been assigned. In previous years a smaller part of the outlays was appropriated for this par-



ticular part of the investment process. For example in 1979, 50 percent of all investment outlays were spent on construction and assembly works, in 1980 and 1981, 51.1 percent, respectively.

[A total of] 136.4 billion zlotys have been assigned this year for machines and equipment, which constitutes 30.7 percent of the total of the investment outlays. In 1979, 45.9 percent of the outlays were assigned for this purpose, in 1980--44.9 percent, and in 1981--44.4 percent.

Other investment outlays are to absorb 19.2 billion zlotys, namely 4.3 percent this year.

The realization of the investments is however being delayed. From January to August of the current year, investments of the total value of the cost-estimate 79,920.6 billion zlotys, which unfortunately constitutes only 38.3 percent of the yearly material-financial plan, have been turned over for exploitation to the state economy (not counting small-scale industry and investments realized from social and special funds).

Employment Situation

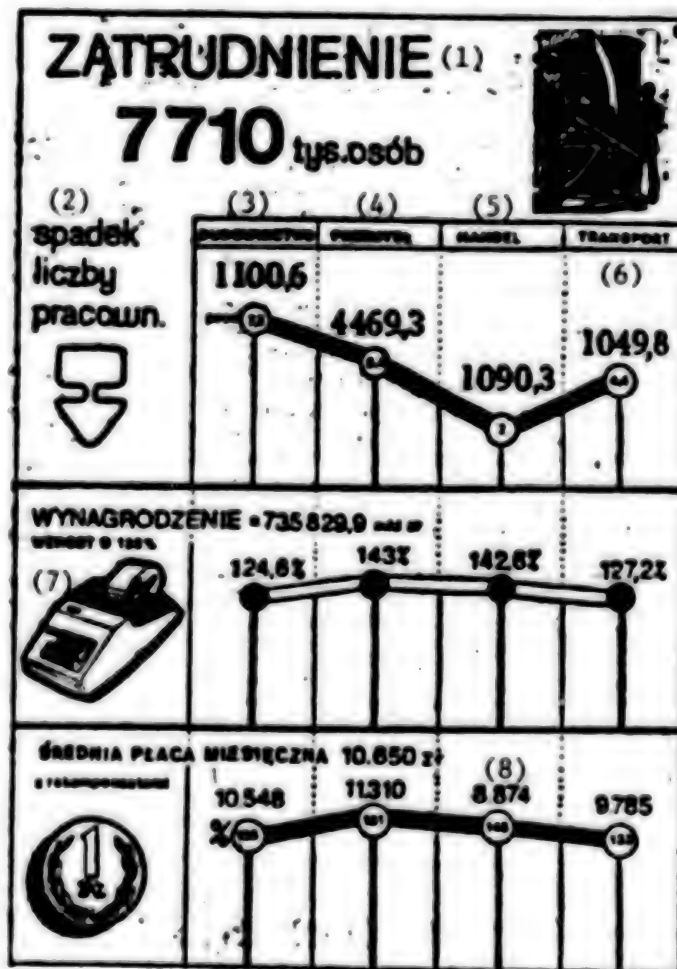
Warsaw RZECZPOSPOLITA in Polish 6 Dec 82 p 6

[Article by (a) (From GUS information): "Facts, Figures, Comparisons"]

[Text] Key: (1) Employment--7710 thousand people
 (2) Decline in the number of employed:
 (3) Construction--1100.6 thousand--7.3 percent
 (4) Industry--4469.3 thousand--5.4 percent
 (5) Commerce--1090.3 thousand--2 percent
 (6) Transportation--1049.8 thousand--4.4 percent

Wages--735 829.9 billion zlotys
 Increase by 138 percent
 Construction--124.6 percent
 Industry--143 percent
 Commerce--142.6 percent
 Transportation--127.2 percent

(8) Average Monthly Wages--10.650 zlotys with compensations
 Construction--10.548 zlotys--135 percent
 Industry--11.310 zlotys--151 percent
 Commerce--8.874 zlotys--145 percent
 Transportation--9.785 zlotys--133 percent



The past three quarters of the current year, in the basic sectors of the socialized economy: in industry, construction, transportation and communications, and commerce (about 70 percent of those employed), were characterized by, among other things, a small decline in employment in relation to the same period last year, and a simultaneous increase in personal emoluments and worker's compensation payments.

As the Chief Census Bureau informs us, employment in these 4 sectors of the economy this year (from January to September) stood at the level of 7710 thousand people, which is 94.9 percent of those employed in the same period last year. The biggest decline in the number of employed, 7.3 percent, occurred in construction (up to 1100.6 thousand people) and in industry, 5.4 percent (up to 4469.3 thousand people). The smallest decline, only 2 percent, was noted in the number of people in commerce (up to 1090.3 thousand people). In transportation and communications together, 1049.8 thousand people were employed, that is 4.4 percent less than in the 3 quarters of last year. In communications alone, 161 thousand people (99.4 percent of last year's employment) worked, and in transportation--888.8 thousand (94.9 percent).

The sums assigned for personal emoluments and payments of worker's compensation increased in the same period by 138 percent and amounted to 735829.9 billion zlotys. The highest increase took place in industry--up to 143 percent in relation to the same time last year, and in commerce--to 142.5 percent. Payments in construction reached 124.3 percent, in transportation and communications--127.2 percent; in communications alone 138.5 percent, and in transportation 125.7 percent.

The average monthly wages, including compensations, in the past 3 quarters stood for all 4 sectors at the level of 10650 zlotys, and amounted to 145.5 percent of last year's wages. In industry they reached 11310 zlotys (151.2 percent of last year's), in construction 10548 zlotys (135.1 percent), in commerce 8874 zlotys (145.5 percent) and in transportation and communications 9785 zlotys (133.1 percent). Thus the lowest ones were in communications--8382 zlotys (139.3 percent increase in relation to the same period last year) and higher in transportation--10040 zlotys (132.4 percent).

Without worker's compensation, the average wages were: in industry 9787 zlotys (increase to 131.5 percent in relation to the 3 quarters of last year), in construction 9099 zlotys (increase to 117.1 percent), in commerce 7355 zlotys (121.3 percent, in transportation and communications 8350 zlotys (114.1 percent). In transportation alone, the average monthly wages without compensation were 8618 zlotys (114.1 percent) and in communications 6871 zlotys (increase to 114.9 percent).

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CSO: 2600/171

ECONOMIC PLAN FOR 1983 OUTLINED

Commentary on Plan

Warsaw ZYCIE GOSPODARCZE in Polish No 47, 12 Dec 82 p 1

[Editorial commentary by K.S.: "The 1983 Plan"]

[Text] The most important economic task facing us over the next few years is the restoration of economic equilibrium. This is, so to speak, a critical prerequisite for bringing an end to the recession as well as for making the institutional machinery of the economic reform function in an effective manner. This is why it is also crucial that, when reviewing the planning proposals for next year, we should ask the following questions: to what extent does the rationale contained in this plan bring us closer to a state of economic equilibrium?

The projected 4-percent increase in industrial output is supposed to be achieved mainly by way of improved efficiency, since deliveries of raw materials and fabricating materials are only supposed to go up by 1.8 percent. Priority is also being given, wherever possible, to class B industries and the food producing industries. To be sure, this is not going to bring the economy into a state of equilibrium, a prospect which is in any event, in view of the severity of the recession, altogether unthinkable over such a short span of time. But this is still a step in the right direction.

Conditions are most difficult in the domestic consumer goods marketplace. It has to be said in all candor that there is no point in counting on any dramatic improvements in this area. This is mainly due to the decline in supplies of raw farm produce for the food processing industries, something which is causing their output to go down by 1.9 percent. This is a gap which is hard to "patch" even assuming that it would be possible to step up deliveries of imported goods for the consumer marketplace or for agriculture.

Given these facts, it is doubtful whether it will be possible to hold the inflation rate down to a level of 17-18 percent. Various estimates show that the so-called "inflationary curve," which at the beginning of this year accounted for roughly 15 percent of total personal purchasing power, dropping to 10 percent by mid year, will reach a level of around 12 percent by the end of 1982. There are no signs that things will be any worse next year, but the plan projects that things will improve to some extent.

In the wake of public pressure the inflation rate written into the plan has already been adjusted downward from 25 to 17-18 percent. At the same time, public pressure for higher wages is not diminishing. Enterprises do have the funds needed to increase payrolls; some of this money is already showing up in the marketplace. So, the problem arises as to whether the change in the rules represented by FAZ [expansion unknown] will be an effective stop-gap for holding the line against this growing—under the impact of difficult, recession-ridden living conditions—pressure for higher wages. The correlation of FAZ deduction allowances with increased output will contribute in a positive way toward market equilibrium only on the condition that structural changes are made which promote increased supplies of consumer goods.

This situation confronts us, in the starkest terms, with the following dilemma: Is next year going to bring a broadening of the scope of state controls over the economy or will we also have to reconcile ourselves to an increase in the inflation rate above the projected level of 17-18 percent?

The existence of this dilemma, especially in light of questions as to how the economic reform is going to work, points to the fact that, as far as business enterprises are concerned, the rates that are being set for the increased supply of consumer goods are not merely a question of production capacity, but also one of the public interest. This is because under present conditions the mutually reinforcing link between social and economic equilibrium is especially strong. The former does not exist without the latter, and vice versa.

Central planners are aware of this interdependent relationship. This awareness is reflected in the plan not only in the form of measures providing for the protection of social groups with the lowest incomes, but also in the form of actions geared toward increasing the supply of social goods and nonmaterial services. However, the rate set for the growth of personal incomes, a target which won approval during the public debates, when combined with the curbs being imposed on increased public spending aggravates the aforementioned dilemma and is more conducive to increased government regulation than it is to a higher inflation rate. This is because the upshot is that rising prices tend to lead to a diminished pool of funds available for public spending.

There is a vast degree of uncertainty surrounding the question of what is going to happen to our external-accounts equilibrium. Objectively speaking, this uncertainty is a product of both our balance-of-payments situation and of the international situation. In November of last year we were close to reaching an agreement with representatives of western governments on the re-scheduling of the Polish debt. This action was supposed to have been accomplished under more or less the same terms which were agreed upon in 1981, that is, providing for a deferral of 90 percent of the payments due on principal and interest. Unfortunately, talks on this subject were broken off in January 1982 by the governments of western countries. As a result, Poland was also cut off from being able to obtain foreign loans. However, negotiations with banks produced an agreement which made it possible to postpone principal payments and to make enough payments on interest so as to guarantee access to working-capital loans.

These facts show that, when it comes to working-capital loans obtained from non-socialist countries, this degree of uncertainty is relatively slight, especially so in view of the fact that negotiations with banks on the 1983 payments schedule have already gotten under way. On the other hand, things are uncertain in the realm of guaranteed loans.

For this reason also, it is extremely important that we should search for ways to lessen the burden of the possible adverse consequences resulting from our debt repayment liabilities which might be worse than those projected in the plan. This is why our ties with the socialist countries, especially with the USSR, which is granting us loans to cover a large proportion (65 billion zlotys worth) of our trade deficit for next year, are so extremely important as a stabilizing factor.

Thus, the search for other ways to soften these blows, mainly in the form of incentives for increased export sales, is one of the main features testifying to the plan's realism, especially so in view of the need to offset the scarcity of consumer goods in the domestic marketplace with imported deliveries. In the meantime, though, there is no way of telling whether there exists a clearly defined perception of what kinds of instrumentalities are needed to give a strong boost to export sales and to make these sales more profitable. The methods suggested by the national government for stimulating industries to produce for export are giving rise to serious doubts in the eyes of many economists. So, it seems that in the short run one of the most important issues we will have to deal with involves efforts geared toward the further fine tuning of the levers used to stimulate increased export sales.

The same problem arises when it comes time to consider the problem of equilibrium in the producer goods market. To achieve a 4-percent increase in industrial output with a 1.8-percent increase in deliveries of raw materials and fabricating materials means that one of the main premises of the plan is based on the downscaling of the materials and energy intensiveness of the manufacturing process. From a resources allocation standpoint, the projected level of savings are not very great. But they are still a very realistic goal. But the question does arise as to how realistic they really are. This is because when one takes a look at the economic planning levers envisioned for next year, one might come to the conclusion that they are not geared strongly enough toward solving our most critical problem, i.e., materials and energy conservation. And this after all is the cornerstone of the plan's most important resources allocation provision.

There are no reservations about the plan's general provisions concerning equilibrium in the capital spending sphere. But here too the question arises as to whether regulatory problem-solving measures have been fairly coordinated with these provisions. Thus, for example, enterprises have been given important capital investment incentives in the form of tax breaks in case where they decide to invest in certain kinds of projects. This is a valid policy, since it mainly gives preference to capital projects which are dedicated to the renovation and modernization of plant and equipment and which yield a rapid return on investment. But we do not know how this is going to affect enterprises, nor do we know if this is going to increase pressure in

favor of capital spending in a way that will pose a threat to general economic equilibrium. So, the question arises as to what course we should take in order to discourage enterprises from launching into capital spending projects which exceed the economy's ability to absorb this investment. This is an issue of great importance, since the vast majority of capital spending projects are going to be financed by the enterprises themselves.

These few observations on the 1983 plan go to show that the focus of our attention is shifting from the question of "what" to the question of "how." We are learning more and more about the problems which are going to have to be solved in 1983. However, the process of coming up with suitable instrumentalities which are tailored to meet the goals of economic policy is still our weakest link, notwithstanding the changes which have already been made in the way our economy is run. We are still faced with a lot of problems, problems which we have yet to resolve. The instrumentalities of the 1983 plan are its weakest link.

1983 Plan Targets

Warsaw ZYCIE GOSPODARCZE in Polish No 47, 12 Dec 82 pp 8, 9

[Article based on Planning Commission documents]

[Text] Work on the National Annual Plan for 1983 was already under way during the first half of 1982 in conjunction with work on alternative scenarios for the 1985 Socioeconomic Plan and preliminary planning for the period 1986-1990. This work resulted in the drafting of the provisions of the 1983 National Annual Plan which were approved by the Economic Committee of the Council of Ministers in September 1982.

The provisions which make up this plan were submitted to government ministries, voivodship government offices, and selected enterprises. The economic growth policies and resources allocation schedules written into the provisions of the 1983 plan and correlated with the alternative outlines of the 1985 Socioeconomic Plan and preliminary planning provisions covering the period 1986-1990 were submitted for review to the Sejm and then released for a full-scale public debate.

The 1983 National Annual Plan, as drawn up and ratified by the Council of Ministers on 26 November 1982, differs in many respects from previously approved plans. This is owing to a number of reasons which caused the current underlying premises of the structure of the 1983 plan to be different from the provisions of earlier plans.

First of all, the performance record in fulfillment of the 1982 plan targets turned out to be different than expected. A variety of things happened to turn things in a different direction, but, generally speaking, the factors to blame for this were more positive than not. Starting in August-September 1982, the downward trend in industrial output was brought to a halt, and this held true not only in extractive industries, but also in manufacturing industries. At the same time, however, it has been noted that certain adverse developments

are tending to persist, e.g., the figures for field crop production turned out to be worse than expected, especially so in light of the poor harvests for potato and fodder crops as well as in light of the substandard performance of the housing construction industry.

Another factor which made it necessary to revise plan targets were the persistent external difficulties in terms of our relations with the developed capitalist countries. The governments of some western countries, especially the United States, continued to enforce or even tightened sanctions against our country, and this helped to make things worse in terms of our efforts to obtain new loans and diminished our ability to market our exported goods in countries belonging to payments zone II [capitalist countries].

A third factor which contributed in a fairly significant way to the plan's present configuration were the draft plans of enterprises, voivodship government offices, and government ministries at the national level which defined their respective production capacities for next year in response to the national government's proposals contained in the provisions of the plan.

The results of public consultations on the optional versions of the provisions to be written into the 1985 National Socioeconomic Plan are a fourth factor.

The Tenth Plenum of the PZPR Central Committee was held from 2 to 29 October 1982. The Plenum acknowledged that the increased output of material goods should be the basis for alleviating the effects of the recession that are having a severe impact on the people's living standards, giving a boost to the signs of stabilization which are emerging in some areas, and laying the groundwork for future economic growth. The Tenth Plenum spelled out the following principal targets for the 1983 plan:

- maintaining essential standards of public nutrition and laying the groundwork for finding a lasting solution to food supply problems;
- making sure that the people are supplied with those manufactured goods which are basic necessities for everyday life and launching a drive to restore equilibrium in the consumer goods marketplace;
- curbing the deterioration in the housing situation and laying the foundations for its gradual improvement;
- the improvement of health care services and the supply of medicines and health care products for consumers;
- the pegging of wage increases to increased labor productivity;
- insuring the availability of social services to those social groups which are economically most disadvantaged.

The policies endorsed by the Tenth Plenum are the underlying premises which went into the formulation of the 1983 National Annual Plan. The goals spelled out by the PZPR Central Committee are long-range goals, and in most cases they will not be fully realized in 1983 or even during the period 1984-1985. Nevertheless, the channeling of resources and assets into selected areas of emphasis is already reflected in the 1983 plan.

During the course of the public debate on the 1983 plan demands were raised calling for a more rapid rise in the standard of living, but under present conditions these demands cannot be satisfied. The Council of Ministers took the position that the plan should be realistic. The one thing that can be accomplished next year under the present conditions of economic recession is to put a stop to the decline in the level of personal spending.

The year 1983 is especially important in view of the fact that economic growth through 1985 will be contingent upon the expected takeoff of growth trends in most basic sectors of the economy and the concentration of resources on the fulfillment of tasks deriving from the resolution passed by the Tenth Plenum of the PZPR Central Committee. Even if the economic growth rate projected for 1983 is not all that high, the fulfillment of all of the targets projected under the term of this plan will still make it possible to achieve a more rapid rate of national socioeconomic growth in following years.

The successful fulfillment of the targets set by the 1983 plan is dependent mainly on the achievement of the projected level of foreign trade turnover, agricultural production, and further progress in the normalization of the sociopolitical situation. These factors are now shrouded by a high degree of uncertainty. It is also hard to foresee what the results will be next year of the economic reform which has already been passed. Consequently, it cannot be ruled out that economic activity in 1983 will not turn in a different and undesirable direction, since, on the one hand, this activity is not solely a function of decisions made in this country (the problem of relations with capitalist countries), whereas, on the other hand, it is a function of chance factors (e.g., weather conditions).

For objective reasons, the 1983 plan is characterized by a selective approach to the problem of resources allocation. A fully equitable allocation of goods and resources has been achieved in the case of products subject to the government controlled rationing system and in the case of goods subject to operational programs. A relatively high level of equitable resources allocation has proved to be possible in the case of other manufactured products destined for the consumer goods market. A selective approach to resources allocation cannot be regarded as a defective aspect of the plan. This selective approach is a product of the inherent features of the plan which are an integral part of the environment in which its targets have to be fulfilled. This thrust of the plan stems from, among other things, the provisions of the law on socioeconomic planning which call for the substantial curtailment of the scope of the plan's command-directive features coupled with the simultaneous enhancement of its role as an instrument which stimulates the fulfillment of economic tasks.

In addition to defining goals and the resulting tasks which must be performed to achieve these goals, the plan also makes provisions for a set of instrumentalities which are employed with a view to the realization of these goals and tasks. While adhering to the basic principles of the economic reform, the plan incorporates modifications of certain aspects of the reform so as to make the institutional machinery of the reform program work toward the fulfillment of the tasks set by the plan. These features of the plan serve as an inducement, depending on how socioeconomic conditions develop in the course of a given year, to giving consideration to the possibility of making possible future adjustments in resources allocation ratios and plan targets.

Industrial Output

The most important task facing industry in 1983 is to perpetuate and further promote the trends toward increased output which emerged during the latter half of 1982. At the same time, it is projected that structural changes will be made with a view to bringing supply more into line with the demands which are created as a result of the realization of priority economic and social goals.

The bulk of industrial output during 1983 is going to be a function of three factors, i.e., deliveries of raw materials and fabricating materials, the volume of available hard currency resources, and the number of hours worked (e.g., in reference to the spread of multiple-shift working schedules, overtime work on free Saturdays, and so on). In 1983 the production capacity factor will be just about as significant as it was in 1982, that is, it will be a stumbling block of lesser importance and will crop up in a few strictly limited areas.

It is estimated that the output of critical industrial goods in 1983 will reach levels shown in the table below:

	<u>1982</u>	<u>1983</u>	<u>1983/82</u> <u>index in</u> <u>percents</u>
Hard coal (millions of tons)	188.5	186.0	98.7
Brown coal (millions of tons)	38.0	42.9	112.9
Coke made from hard coal (millions of tons)	17.5	17.6	100.6
Refined crude oil (millions of tons)	13.2	13.5	102.3
Electric power (billions of kWh)	116.0	120.5	103.9

Rolled products (millions of tons)	10.4	11.4	110.1
Copper (thousands of tons)	342.0	335.0	103.8
Cement (millions of tons)	16.1	17.2	106.8
Conifer lumber (millions of cubic meters)	4.8	5.1	106.2
Paper (thousands of tons)	962.6	1019.0	105.9

Regardless of the extent to which the output of basic raw materials and fabricating materials is going to go up in comparison with this year, the fact remains that the level of output of most of these products projected for next year is going to fall short of pre-recession levels. The volume of coal mined in 1983 will be equivalent to 92.5 percent of the volume of coal mined in 1979, while the corresponding ratio in relation to 1979 for rolled products is 87.7 percent, for cement--89.6 percent, and refined crude oil--81.3 percent.

There will be a sharp increase in deliveries of raw materials and fabricating materials imported from other socialist countries. Thus, for example, imports of natural gas will go up by 400 million cubic meters, iron ore--2.1 million tons, and aluminum--13,000 tons. The restructuring of imports from countries belonging to payments zone II will make it possible to increase imports of producer goods for industry, including, inter alia, deliveries of alumina, lead, wool and wool-like fibers, and cotton.

Deliveries of domestically produced and imported raw materials and fabricating materials will go up by 1.8 percent in relation to 1982. In order to fulfill the plan target calling for a 3.7-4.0 percent increase in industrial output it is imperative that we should upgrade the efficiency of management practices as reflected in the reduced energy and materials intensiveness of industrial production. There will be no uniform, across-the-board increase in industrial output in 1983, rather this increase in output will be tailored to the social and economic objectives of the plan. The fastest growth will occur in priority sectors. While the output of the electrical engineering industry as a whole is slated to go up by 4.9 percent, the output of the priority sector of this industry engaged in the manufacture of agricultural machinery and equipment will go up by 15 percent. Similar provisions have been made in the case of light industries where an average increase of 5.4 percent in aggregate output will be accomplished by a much higher (7.2 percent) increase in the output of footwear. In the chemical products industry, where total output is slated to go up by 6.9 percent, there will at the same time be a significant increase in the output of tires for passenger autos (48.2 percent), trucks (40.1 percent), and tractors (42.7 percent), and the output of pharmaceutical products will go up by 12.4 percent.

Limited opportunities for obtaining imported grain and fodder and other agricultural raw materials mean that the output of the food processing industry, which is based in the main on stocks of domestically available raw materials, will decline in relation to 1982 by 1.9 percent. This decline is mainly attributable to the anticipated falloff in the output of the meat products industry as a result of the declining procurement of slaughter livestock. On the other hand, the output and, accordingly, the volume of market deliveries of basic foodstuffs such as flour, baked goods, sugar, cheese, butter and vegetable oils and fats will exceed levels recorded during 1982.

As was similarly the case during 1982, operational programs will be left in place in order to make sure that it will be possible to achieve planned output levels in critical sectors of the economy. However, it has been decided as a matter of principle that operational programs will be relied upon to embrace only those goals and tasks which cannot be fulfilled without resorting to the further expansion of the system of special incentives for priority industries. The acceptance of this standard has made it possible to limit the number of operational programs to six, and by the same token, this has made it possible to take action which will make the tasks laid down under the terms of these programs and the level of funding essential for their fulfillment more realistic. The volume of industrial output benefiting from priority industry programs has been held down to approximately 15 percent of the value of goods produced by manufacturing industries and to approximately 20 percent of the value the goods produced by sectors turning out basic raw materials and fabricating materials.

Under the terms of the 1983 plan the following operational programs are being proposed to aid the following sectors:

- public road and rail transportation;
- industries producing machinery, equipment, transport vehicles, and associated spare parts, batteries, and tires for agriculture and food processing industry;
- industries producing basic pharmaceutical products, health-care goods, and medical equipment for health care services;
- industries producing apparel and knitted consumer goods for young people and children under 15 years of age;
- industries producing footwear for sale on the domestic market;
- industries producing protective clothing and personal safety equipment.

Food Producing Industries

There are two key developments which will have a profound impact on the situation of food producing industries in 1983:

-- the projected decline in animal production as a result of the major reduction in livestock herds, especially hogs;

-- the reduction in imports of agricultural raw materials and products as a result of the country's overall balance-of-payments situation.

In spite of the adverse weather conditions, 1982 was marked by a good harvest performance record in such areas as the production of grain crops (where the harvest went up by 7.5 percent in comparison with last year) and fruit crops (up by 44 percent), and the sugar-beet harvest, which was only 5.5 percent lower than last year's harvest, was not bad either. However, the lower sugar-beet harvest was offset by the higher sugar content of the beets. Provided that the sugar refinery production campaign moves ahead at a good pace, a relatively high output of sugar can be expected. On the other hand, harvest figures for potatoes, vegetables, and oleaginous and fodder crops are low. The poor harvest figures for root crops are mainly attributable to weather anomalies, especially the drought which occurred during the summer. As a result, the lower output of fodder crops is going to have an adverse impact on the growth of livestock herds next year.

In 1983 output figures for field crops will mainly be a function of weather conditions. The volume of industrially manufactured goods delivered to the agricultural sector will also have an impact, especially so in terms of deliveries of fertilizers and pesticides. Fertilizer deliveries, calculated in terms of the net content of pure ingredients, will go up in 1983 by approximately 1 percent, whereas the consumption of fertilizers per hectare of farmland, making allowances for unused fertilizer stockpiled during 1982, will increase to 189 kilograms, or by 3.8 percent. It is projected that pesticide deliveries, calculated in terms of net content of active ingredients, will increase from 16,300 tons in 1982 to 17,200 tons in 1983 or by approximately 5.5 percent. There will be a substantial increase in deliveries of agricultural machinery and equipment for the use of agricultural and the food processing industry, especially so in terms of deliveries of tractors, spare parts, tires, and batteries.

It is estimated that the 1983 grain harvest will amount to 21.2 million tons, that is, it will match the level of this year's harvest, although the 1983 potato harvest will amount to approximately 41 million tons, which represents a 25 percent increase in relation to this year's very low harvest. The sugar-beet harvest is projected to level off at 15.5 million tons, i.e., up by 0.5 million tons over the 1982 harvest. It is projected that aggregate agricultural production in 1983 will increase by a rate of from 1.5 to 2.4 percent, including an increase in field crop production ranging between 5.1 and 6.9 percent. The higher percentage increase figure for agricultural production will be attainable given moderately favorable weather conditions and provided that the potato harvest reaches an average level.

Assuming that the grain harvest matches the level projected for 1983, it is estimated that government purchases will amount to 4 million tons. This means that there will be a grain supply shortfall amounting to 1 million tons. As work proceeds on the fulfillment of the plan the government will

launch a wide-ranging effort to offset this shortfall. The problem of providing for the procurement of agricultural products at levels which will insure a proper diet for the nation is a crucial issue which needs to be resolved by a long-range agricultural policy.

The fulfillment of the targets projected for field crop production will mean that there will be an improvement in the fodder supply situation and will lay the groundwork for the growth of animal production in future years. During 1983, as a result of the poor fodder supply situation associated with the low harvests of 1982, it has to be expected that there may be a substantial decline in livestock herds, especially so in the case of hogs. The 1982 fodder production figures coupled with the reduced deliveries of fodder from government stockpiles mean that total fodder stocks, calculated in terms of grain units, will amount to approximately 5 million tons, that is, down by approximately 12 percent in relation to fiscal year 1981/1982. It is estimated that this is going to mean that hog herds will decline by approximately 3 million head. Consequently, figures for the production and delivery of all livestock, taking into account animals from diminished herds which are put up for sale to the government, may be reduced by more than 10 percent. Under these circumstances per capita meat consumption would drop by about 3 kilograms or to a level of 55 kilograms per annum.

In order to fully comply with standards governing the supply of meat to consumers under the ration card system provisions have been made for: a) additional imports of fodder for the use of poultry producers in place of the meat imports stipulated under the terms of the plan in cases which permit an increase in the production of poultry meat at the same cost in terms of hard currency expenditures; b) a reduction in meat deliveries not subject to government controls.

Transportation

For a long time now it has become increasingly more difficult to realize the primary goal of the transportation services industry, i.e., to meet the needs of the national economy for transportation services. There are many signs of growing instability in the nation's transportation system that threaten to turn the transportation industry into one of the main stumbling blocks standing in the way of economic growth. The completion of projects geared toward the radical improvement of the technical infrastructure of the transportation industry, especially so in terms of the condition of rolling stock, railroads, and highways, must be viewed as a problem of crucial importance during 1983 and the years ahead. It is especially important, therefore, that we should take a broad view of the management of repair and maintenance services for both rolling stock and roadbeds and of progress toward the electrification of the main lines served by Polish State Railroads.

The projects which were initiated during 1982-1983 for the repair of both rail and highway roadbeds will prevent things from getting any worse, but they will not go far enough to make things any better. It is estimated that in order to maintain the railroad network in a condition which would insure the punctual and safe movement of rail traffic it would be necessary to make

provisions for the replacement of 2,400 to 2,500 kilometers of track every year. During 1982 2,000 kilometers of track will have been replaced, and for 1983 it is projected that 2,400 kilometers of track will be replaced. The amount of repair and maintenance work to be done on national highways should come to an annual total of from around 2,300 and 2,400 kilometers of roadway. Given the fact that the amount of work actually done in 1982 comes to approximately 2,200 kilometers, and the projected volume of repair and maintenance work for next year comes to 2,350 kilometers, the backlog of unfinished work from previous years will not be reduced and will still amount to approximately 25,000 kilometers, which represents approximately 38 percent of the total length of the nation's roadways.

During 1982 an average of approximately 60,000 freight cars were out of commission on any given day. It is projected that during 1983 the average number of freight cars out of commission during a given day will drop to 55,000. During 1982 around 70,000 freight cars will have been sent in for repairs; the 1983 plan projects that this figure will increase to around 74,000.

During 1982 316 kilometers of rail lines will have been electrified, and so the total length of electrified rail lines will come to 7,407 kilometers compared to the total length of the rail line network which comes to approximately 24,300 kilometers. According to the 1983 plan, 343 kilometers of rail lines are slated for electrification. By the beginning of the 1990's all of the so-called main network of Polish State Railroads should have been electrified, that is, a total of approximately 12,500 kilometers, and this means that it will be necessary to step up the pace of electrification to a minimum of 500 kilometers per annum during the period 1984-1985

In the area of maritime transportation service steps will be taken aimed at making maritime ports better suited to handle the demands of foreign trade and transit traffic and at the more efficient exploitation of transshipment and warehousing facilities.

Foreign Trade

The targets set for commodity trade with the countries belonging to payments zone I [socialist countries] during 1983 are a reflection of the implementation of the long-range policy calling for the reorientation of foreign trade in favor of increased trade with the socialist countries and especially with the Soviet Union. It is projected that during 1983 commodity trade with the payments zone I countries will go up by 11 percent, including a 15 percent increase in commodity trade with the Soviet Union. Exports to payments zone I will go up by 10 percent, including a 16 percent increase in exports to the Soviet Union, whereas imports will increase respectively by 12 percent and 15 percent. In spite of the fact that exports will be increasing at a faster rate than imports in trade with the Soviet Union, the balance of trade deficit will be valued at 65 billion zlotys, i.e., the same deficit recorded in 1982. This is possible owing to the aid which we have received from the Soviet Union that has resulted in increased deliveries of raw materials and fabricating materials and reflected a willingness to grant loans to help finance the trade deficit.

The primary targets of the 1983 plan are as follows (in billions of zlotys): total exports--465 (425 in 1982), including 306 to the USSR (264 in 1982); total imports--537 (480 in 1982), including 372 from the USSR (324 in 1982); total balance--71 (55 in 1982), including trade with USSR--65 billion zlotys (60 in 1982).

In terms of exports to payments zone I countries it is projected that there will be a substantial increase in sales of raw materials and fabricating materials, e.g., iron and steel industry goods--up by 870,000 tons or 98.3 percent, copper and semifinished goods made from copper--up by 37.3 percent, and hard coal--up by 1 million tons or 3.3 percent. At the same time, by increasing export sales of raw materials and fabricating materials, we managed to reduce exports of goods which could be sold on the domestic consumer goods market, e.g., exports of synthetic fibers--down by 18.3 percent, wool and wool-like textiles and knitted goods--down by 6 percent, knitwear--down by 55.8 percent, apparel goods--down by 34.4 percent, and leather and imitation-leather footwear--down by 47.7 percent. The difference between 1983 and 1982 in the volume of consumer market goods sold for export will be earmarked for meeting the needs of Polish consumers.

The country's balance of payments situation in 1983 will be much more complicated than in 1982 due to the accumulation of new loan liabilities which are primarily the result of the deferral of debt servicing payments under the terms of the agreement entered into with foreign governments on the refinancing of our foreign debt for 1981 and the failure to remit payments for 1982 chargeable to the servicing of loans guaranteed by these governments.

Another factor which is making work on the 1983 foreign trade plan much more complicated is the fact that it is hard to foresee what is going to happen on the foreign trade front with respect to the feasibility of securing new working-capital loans and the feasibility of finding markets for Polish goods.

In the course of drawing up the 1983 plan it was taken for granted that 1.9 billion dollars should be earmarked for debt servicing, but plans to stimulate economic growth which implies increased imports of producer goods, will make it necessary to secure working-capital loans amounting to a total of 0.8 billion dollars.

The volume of trade with countries belonging to payments zone II is illustrated by the following comparative breakdown:

-- total exports in billions of zlotys: in 1982--454.0; in 1983--510.5; percentage increase: 112.4;

-- total imports in billions of zlotys: in 1982--344.0; in 1983--403.5; percentage increase: 117.3;

-- net balance of trade in billions of zlotys: in 1982--110.0; in 1983--107.0.

The 1983 plan projects that the value of imported producer goods (excluding grains and fodder) could go up from 191 billion zlotys in 1982 to 266 billion zlotys in 1983. The substantial increase in imports of raw materials and fabricating materials for industry means that there will have to be a decline in grain imports. However, it is assumed that there will be an increase in imports of high-protein fodder and ingredients used in the production of fodder.

The plan also projects that work will begin as early as 1983 on the restructuring of imports by promoting a long-range trend toward bringing exports and imports of agricultural products and foodstuffs into balance and by increasing imports of producer goods which are essential for harnessing the existing production capacities of Polish industry, especially so when it comes to increasing the output of goods for the agricultural sector.

In terms of 1983 export sales to payments zone II it is projected that there will be a significant increase of sales of those commodities which figure more prominently in the overall volume of our foreign trade such as hard coal (up by 4 million tons), silver (up by 12.2 percent), cement (up by 500,000 tons), copper products (up by 37.5 percent), and synthetic rubber (up by 32.6 percent).

Capital Investment and the Construction Industry

It is projected that aggregate capital spending during 1983 throughout the national economy will come to approximately 960 billion zlotys, which represents an increase of 101.6 percent of actual capital spending outlays under the terms of the 1982 plan. In view of this limited level of capital spending, priority will be assigned to those sectors of the economy which are of special importance under current social and economic conditions, i.e., food producing sectors, the housing sector, and fuels and energy producing industries.

Of the total volume of capital spending in the national economy during 1983 some funding levels are earmarked as follows:

-- 270 billion zlotys (an increase of 3.8 percent over 1982), or 28.1 percent of total capital spending, for capital projects in food producing sectors, including projects in socialized and private agriculture, food processing and fodder processing industries, and electrical engineering and chemical industries turning out capital goods for agriculture;

-- 280 billion zlotys (an increase of 0.4 percent), or 29.2 percent, of total spending for capital projects in the housing construction sector, including all projects in socialized and private sector housing construction and public services capital construction, also including spending on the installation of utility in support of housing construction;

-- 130 billion zlotys (an increase of 1.6 percent over 1982), or 13.5 percent of total spending, for fuels and energy producing industries most of which will be spent on the hard and brown coal mining industries and the power industry.

For the other sectors of the national economy it will then be possible to earmark capital outlays amounting to 280 billion zlotys, which will account for 29.2 percent of total capital spending for 1983. These funds will be allocated mainly for the most urgent categories of capital projects which are still in progress, especially those which will insure returns on investments during 1983, and for short-term capital projects geared toward the renovation and modernization of plant and equipment, primarily including those projects dedicated to the production of goods to be sold on the domestic consumer goods market and goods to be sold for export, but also including projects associated with programs for the conservation of raw materials and fabricating materials.

In spite of the fact that work on many capital projects was suspended during 1980-1982, it will also be necessary during 1983 to defer some programs and projects which as of now are still in progress. At the same time, it is thought to be advisable that we should take advantage of all opportunities to bring on line those capital projects which have already been canceled, among other ways, by turning these projects over to other investors in order to bring them to completion instead of having them start work on the construction of some new facility, bringing in foreign contractors to share in the work on the completion of these projects and in their subsequent operation, allowing these projects to be taken over by small business cooperatives, and so on.

In conformity with the goals of the economic reform the process of exercising control over the implementation of the 1983 capital investment plan will proceed under conditions which limit the direct intervention of the national government and grant broader decision-making powers to business entities and local governments. Direct control will be exercised over only 73 capital investment projects, i.e., so-called national capital projects which are specifically enumerated in the National Annual Plan.

The funds which are being appropriated for these projects come to 142 billion zlotys, i.e., 14.8 percent of total capital spending. In the category of national capital investment projects 23 of these projects involve major capital construction programs for fuels and energy producing industries (e.g., the "Belchatow" mine and powerplant, the "Zarnowiec" power plant, and the "Opole" power plant). These projects account for 50 percent of total spending on national capital investment projects. In addition to these programs, the list of national capital investment projects includes other important national projects in support of the growth of food producing industries, e.g., the expansion and modernization of the "Ursus" Mechanical Engineering Works in order to start work on the production of tractors under foreign licence, the construction of the "Police II" nitrogen-phosphorous fertilizer factory complex, as well as other projects of crucial importance to the country's social and economic development (e.g., the construction of the first phase of the Warsaw metro system and the first phase of the "Dzieckowice" multiple-user system for the supply of drinking water to Silesia).

As far as other categories of capital spending are concerned (voivodship government offices, enterprises, cooperative housing construction, capital projects paid for out of public and special funds, and private investment projects), indirect regulatory methods will be employed, primarily by way of funds appropriated under the terms of finance plans, including in particular the national budget and the credit allocation plan. A total of 435 billion zlotys are slated to be spent on capital projects for business enterprises and the cooperative housing construction industry, that is, 45.3 percent of aggregate capital spending in the national economy. Enterprises which are temporarily not earning high enough profits to be able to finance their most urgent capital construction needs may receive--in especially warranted cases--certain tax concessions or an appropriate subsidy paid for out of the national budget--staying within the limits of the overall amount set aside for this purpose in the national budget. One hundred thirty one billion zlotys, or 13.6 percent of all spending in the national economy, is being set aside for capital projects of voivodship government offices. These spending programs--which are broken down from voivodship to voivodship--make it possible to ascertain the total level of national budget subsidies and necessary bank loans in the form of lump-sum figures. These spending programs may be expanded as work proceeds on the fulfillment of the plan by drawing on revenues conserved by individual voivodship governments and by bringing in other investors to share in the construction of joint and allied capital projects.

It is estimated that personal spending on capital projects will exceed the level projected in the 1982 plan by 4 percent. Personal capital spending will account for 19 percent of total capital spending, including 95 billion zlotys to be invested in the private agricultural sector and around 80 billion zlotys for privately financed housing construction.

The Supply-Demand Equation

Conditions in the domestic consumer goods marketplace will evolve under the influence of two contradictory tendencies.

First, there will be mounting pressures from various institutions and social-occupational groups for higher cash incomes. Second, opportunities for expanding the supply of consumer goods and services will be limited. The 1982 plan target for personal incomes will have been exceeded by more than 240 million zlotys, whereas the volume of goods delivered for sale to consumers will for the most part match the target written into the plan. This means that the so-called "inflationary curve," which by year's end will be valued at 400-500 billion zlotys, will have become more acute, especially during the third and fourth quarters of 1982.

It is projected that during 1983, as measured in current prices, deliveries of goods at the wholesale level will increase by 8.3 percent, while deliveries of goods at the retail level will go up by 8.5 percent. At the same time, demands for the expansion of social services and for higher wages not backed up by increased output will not diminish.

It is projected that aggregate cash incomes will go up in 1983 by 12.5 percent, compared to the almost 60 percent increase that occurred in 1982, and wages will increase by approximately 16 percent, compared to this year's 42 percent increase. Such a major slowdown in the growth rate of incomes will be extremely difficult to accomplish and this calls for a redoubling of efforts aimed at increasing wage discipline, mainly in terms of payrolls in the socialized sector of the economy.

After making allowances for personal debt and the increase in personal cash savings, aggregate disposable income for the purchase of goods will amount to 3.007 billion zlotys, while the value of consumer goods deliveries will amount to 2.665 billion zlotys. The value of this supply-demand gap thus comes to approximately 342 billion zlotys.

Under these circumstances price adjustments are going to be inevitable. Most of the commentary heard during the public debate on the draft 1983-85 plan called for the substantial curtailment of the scope of projected price changes. But this means that simultaneous curbs will have to be imposed on wage increases. While conceding on some of the public demands raised during this debate, it was projected that prices of goods and services would go up by around 9 percent in 1983, or by about 15 percent when one takes into account the impact of the inflationary carryover from 1982, and that wages would increase by approximately 16 percent. Given these facts, there will continue to be a gap between aggregate disposable income for the purchase of goods and the value of goods and services actually purchased by consumers.

The inflationary gap figured into the balance sheet for personal incomes and expenditures comes to approximately 71 billion zlotys, but the real cost of bringing supply and demand into balance during 1983 should be assessed at 220 billion zlotys, since in order to bring things back to normal in terms of the performance of the retail trade sector it would be necessary to build up inventories to the tune of at least 150 billion zlotys over the target set by the plan.

The value of goods available for sale as measured in correct prices will come to 2.990 billion zlotys, including deliveries of foodstuffs valued at 1.325 billion zlotys and deliveries of non-food items will be valued at 1.665 billion zlotys. The increase in foodstuff deliveries will be relatively slight. Total deliveries of meat, poultry, variety meats, and meat products may go down by around 6 percent as a result of reduced imports of grains and fodder and the much lower than normal potato harvest for 1982. Deliveries of animal fats and eggs may drop off for the same reason.

The possible falloff in deliveries of meats and animal fats will be partially offset by increased sales of fish and fish products and margarine. Deliveries of coarse cereals, noodles, and rice will also go up.

In the case of nonfood items there will be a noteworthy increase in the output and delivery of such high-demand durables as automatic washing machines, refrigerators and freezers, sewing machines, radio and television sets,

passenger cars, bicycles, and mopeds. There will be a substantial increase in deliveries of such standard general use items as kitchen and household utensils, tableware, leather and rubber footwear, undergarments, outerwear, and knit goods. Similarly, there will be an increase in deliveries of furniture. However, in view of the substantial shortages of apparel and furniture goods on the marketplace, the progress which is expected in these areas, even though it will be rather significant, may still turn out to be less than satisfactory, since next year's deliveries in both categories of products will fall far below 1980 levels.

In terms of deliveries to the rural marketplace it is projected that things will get even better as a result of a 16 percent increase in the supply of agricultural machinery and equipment coupled with a corresponding increase in deliveries of maintenance and building materials such as hardware, cement, prefabricated wall units, asbestos tile, sheet glass, and conifer lumber.

Social Policy

The nation's social services policy provides for the launching of programs designed to protect the economically most disadvantaged segments of society. These programs will be most beneficial for most retirees and annuitants whose pensions will increase by a substantial margin.

Health care and social welfare services. Provisions have been made for the further expansion of health care service institutions and increased deliveries of pharmaceutical and health-care products. The number of hospital beds will go up by approximately 3,300, and so the total number of hospital beds will come to 210,100. This will make it possible to improve the ratio for the number of hospital beds per 10,000 people from 56.8 in 1982 to 57.2 in 1983. It is also expected that there will be an increase in deliveries of pharmaceutical products. Action will also be taken geared toward making medicine supplies available on a more regular basis.

Elementary and secondary education. The plan provides for the more widespread availability of preschool educational facilities. It is projected that during 1983 50.4 percent of all children between the ages of 3 and 6 will have access to preschool care facilities. The vocational school system will give priority to providing training in such fields as agriculture and the food processing industry, transportation, and mining, where labor shortages are especially severe.

Higher education. The number of first-year students newly enrolled in full-time university day courses will amount to 52,000 persons, which, given the declining number of young people in the 19 year-old age bracket, will make it possible for the ratio of the number of young people receiving scholarships to go up to 9.9 percent.

The arts. The plan provides for increased public access to the arts and, in particular, for the increased availability of books through a substantial increase in printing runs ranging upward to 170 to 187 million copies. This means that the number of books published per capita will go up from 4.6 to 5.1 copies.

Physical education and sports. During 1983 the main focus of effort will be on improving recreational facilities and the training of skilled athletes, including first and foremost efforts geared toward the training of athletes for the Olympic Games in Los Angeles and Sarajevo.

In order to provide for improved occupational safety and health the operational program for supplying workplaces with personal protective gear will be continued during 1983.

Instrumentalities for the Fulfillment of the Plan

It has been declared as a general rule that the basic premises underlying the operation of the economic planning machinery in force during 1982 will be left in place during 1983. However, necessary adjustments will be made due to the need to stimulate economic growth, restructure output, and enhance management efficiency. The basic changes which will be made in the specific components of the institutional machinery of economic planning are outlined below.

During 1983 work will begin on the first phase of the process of changing the prices of producer goods, a process which will be spread out over a period of 4 to 5 years. These price changes are dedicated to:

- the elimination of national government subsidies for the purchase of imported raw materials and fabricating materials due to varying foreign currency exchange rates, i.e., the real rate of exchange which applies in foreign trade transactions and the exchange rate which is accepted for purposes of determining the level of producer goods prices during the course of the implementation of the producer goods price reform which went into effect on 1 January 1982;

- the elimination of the subsidy for the purchase of domestic raw materials and fabricating materials whose production is unprofitable;

It has been decided as a matter of principle that in order to boost the production of goods for export and make these sales more profitable the minister of foreign trade may increase the rates of foreign-exchange deduction allowances claimed by enterprises in relation to those set for 1982 in those cases where conditions exist which are conducive to increased and profitable export sales. In the case of enterprises which receive large subsidies in support of the production of goods for export and which offer no hope of improving the profitability of such production programs, rates for foreign exchange deduction allowances may be reduced.

In an effort to increase the incentive role of the income tax during 1983 the range of income tax deductions will be expanded;

- for the work on capital projects undertaken by enterprises with a view to increasing the production of goods which eliminate or reduce the need for imported goods, making provisions for the increased output of spare parts and

components for agricultural machinery and components, the recycling of waste products, raw materials, byproducts, and defective materials, environmental protection programs, and occupational safety and health improvement programs;

-- for capital investment and modernization projects geared toward reducing the consumption of raw materials and fabricating materials;

-- for modernization projects and projects related to the application of innovations and research and development work;

-- for increased revenues resulting from sales of standard-use products subject to price controls and products bearing government quality rating indicators "Q" and "I."

In order to augment the effectiveness of the income tax as a means of encouraging more economical management a category of disallowed costs and losses is to be introduced that will raise the level of earnings subject to income taxes.

In the case of business entities which do not make full use of fixed assets for reasons beyond the control of the enterprises concerned the option will be granted in 1983 to lower the ceiling on maximum depreciation allowance deductions.

A modified system of tax liabilities payable to the Vocational Training Activization Fund will be introduced based on the fact that these liabilities will be assessed on payroll increments and on the fact that the system of assessments will be pegged to increases in levels of output. This modification should contribute to increased labor productivity in enterprises and initiate shifts in employment patterns in the national economy.

In order to insure deliveries of raw materials and fabricating materials for the production of priority goods mandatory mediation in transactions involving the procurement of materials related to the delivery of goods and services and the production of plant and equipment will be expanded, mainly for the purpose of covering those kinds of materials whose importation is subject to centralized controls.

Two classes of priorities have been established for deliveries of producer goods, i.e., for those kinds of producer goods whose delivery is guaranteed and for those kinds of producer goods whose delivery is considered to be a top priority.

Guaranteed producer goods deliveries encompass the production of goods and services which are covered by operational programs; national defense and security requirements; projects being pursued by organizations employing unskilled workers.

Areas which enjoy priority in terms of the delivery of producer goods include: the production of fuels and energy and centrally rationed materials; housing construction and infrastructure development covering new housing construction, social services facilities, the installation of common-use

services and facilities and public utility services in support of housing construction, the repair of residential buildings under contract, the construction of hospitals and other installations; the production of fertilizers and pesticides, and the production of goods for export.

Changes will be made in income tax rates levied on skilled trades and private-sector retail and service establishments that are geared toward alleviating progressive income tax rates coupled with a simultaneous effort to make tax bases more realistic by broadening the scope of tax records which must be kept by small businesses.

With regard to the levying of turnover equalization taxes on high incomes the basis for the assessment of this kind of tax will include all sources of income while limiting possible exemptions to situations which are socially and economically justified. At the same time, in order to preserve the incentive role played by wages, tax rates will be modified so as to lower progressive rates in lower tax brackets and make rates somewhat stiffer in relation to very high incomes.

The modifications which have been made in the institutional machinery of economic planning are consistent with the primary objectives spelled out in the 1983 plan. At the same time, the changes which have been made are geared toward narrowing income differences between different segments of society in keeping with the generally accepted principle whereby specific social groups are expected to share equitably in the costs of resolving our country's social and economic crisis.

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ASPECTS OF ECONOMIC REFORM ASSESSED

Functioning of Enterprises

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[Article by Wladyslaw Baka: "Functioning of Enterprises Under the Economic Reform"]

[Text] It is the major purpose of the economic reform currently being inculcated to create conditions for the enterprises to function dynamically and effectively, because in the final analysis the national economy's ability to meet social needs depends on how the basic links in the economy, the enterprises, operate. For this reason too, the impact of the economic mechanisms on the enterprises is being subjected to particular scrutiny.

Many factors have an impact on the activity of the enterprise. Among them the systems of emoluments, supply, and regulation are of particular significance. Here are some of the findings and conclusions stemming from the first stage of the implementation of the reform.

The target model of the reform assumes that the supply of the production elements, that is, labor supply (employment), work instruments (investments), the objects of the work (raw and other materials), as well as foreign exchange for the purchase of essential means of production abroad, will fundamentally be based on contracts. In accordance with the law which specifies the conditions and principles for entering into these relationships (for example, the labor code, foreign-exchange law, civil code, general sales conditions, general conditions for carrying out investments, and so on), the enterprise will independently enter into agreements to insure employment (work contracts) or to buy and sell material production elements.

The sphere of direct state impact on the structuring of the future economic structure will of course be incomparably greater than that on the enterprises' ongoing activity. This will be accomplished largely through central investments which change the structure of the country's production apparatus and determine the major lines of long-range transformations in

the economy. On the other hand the major role in directing ongoing activity will rest with economic instruments, which will indirectly incline the enterprises to make effective use of economic potential and adapt production and services to the needs of the population.

It will take time to implement the target model of supplying the enterprises with the production elements. In view of the fact that the reform is beginning with a drastic imbalance in various sectors of the economy, it is essential that we have a transition period in which the supply principles must be structured so that alongside the target concept we also take into account the conditions of the present day and the limitations resulting from the severe shortage of production elements.

The extent of the shortfall of these factors differs very greatly. This applies to raw and other materials first of all, then to the labor supply, and the least to fixed assets, but at the same time, within the realm of the various groups of factors, the situation differs very greatly as well. For example, in the realm of raw materials, the greatest restrictions are to be found in the case of imported raw and other materials coming from the capitalist countries. The restrictions are far less with regard to raw materials imported from the socialist countries, and with regard to certain domestic raw materials there are no restrictions at all. There are also very great differences in the realm of labor resources, in terms of both accessibility, and qualifications and distribution.

Alongside the great underutilization of the production apparatus, we also find at the same time a great number of bottlenecks which hamper or make impossible the utilization of whole technological chains. This set of circumstances, especially the serious shortages of imported raw and other materials coming from the capitalist countries, which is the result of the severe shortage of foreign exchange, is making it impossible during the initial stage of the reform's implementation to supply the enterprises with production elements solely on the basis of contracts for purchase and sales, because the basic social goals must be safeguarded. First of all the production elements which are the scarcest must be made available to those enterprises where the products of primary need are produced (drugs, foostuffs, protective clothing, and so on). This is why during the initial phase of the implementation of the reform there has been the introduction of temporary solutions consisting of the designation of priority production spheres which are included in what are called operational programs, and these receive supply priority. Nonetheless, we can see that in practice serious distortions have occurred in this area.

First, in 1982 the priority sphere included in the operational programs was expanded too much. The number of these programs increased from nine* to 14**, and at the same time the scope of the individual programs

*Viz Council of Ministers Resolution No 243 of 30 November 1981.

**Viz Council of Ministers Resolution No 278 of 31 December 1981.

also expanded. Once again we noticed that the central bodies guiding the economy yielding to "a flood of worthy purposes," because it was difficult to question the propriety of including any of the 14 programs in the list of priority goals. On the contrary, the list could have been still further expanded to include justifiably social needs such as housing construction and others.

The pressure from the enterprises to engage in these programs has greatly expanded their scope.

On the one hand, owing to the external situation (restrictions and sanctions imposed by the United States and other capitalist countries), the possibilities for material-technical supply have become far worse than was initially anticipated. These two factors together has made it impossible to balance the operational programs and fully achieve the goals related to their implementation as envisioned in 1982, but this does not mean that the very idea of the operational programs has not proved successful. On the contrary, it should be acknowledged that under the conditions of special supply tensions the introduction of operational program categories is the right way to create the conditions for satisfaction of basic social needs, without fundamentally disturbing the principles of economic reform. Hence, the thing is to improve the "operational programs." It is particularly a matter of these two things: First, of greatly limiting the number of goals included in the programs to create the possibility thereby of giving real supply priority to selected production tasks. Second, of consistently implementing the principle that priority supply of scarce production elements pertains specifically to products [goods and services] and not organizational units [plants and equipment], that means giving the priority to buy raw materials on the basis of an enterprise's undertaking production which is considered the most important from the social point of view, regardless of whether the production process is taking place in a large enterprise or a small one, in a state enterprise, a cooperative enterprise, or a private-crafts workshop. This is the main direction for upgrading the system of operational programs, as a method of implementing priority tasks in 1983.

As the supply system becomes normalized we will avoid any provisions to differentiate one enterprise's possibilities for buying raw materials from another's. In keeping with the targets of the reform, the only criterion will be the enterprise's financial ability to buy certain raw and other materials or others, without any sort of interference from the administrative bodies.

The next area in which temporary solutions basically deviate from the target solutions is that we call building up foreign exchange. In expanding on this problem we should point out the permanent components of the change in the balance of foreign trade. Among them we can include making it possible for the production enterprises to choose the foreign trade center for carrying on imports and exports, making it possible

for production and service enterprises to obtain concessions authorizing them to operate on foreign markets, and making it possible for capital-finance companies (in various arrangements) to carry on activity on foreign markets.

The supply of foreign exchange to enterprises can take place in three ways, mainly:

- a) gaining an import quota from the central foreign-exchange pool (this is usually related to operational programs);
- b) creating the possibility for the enterprise to draw foreign-exchange credit at the Commercial Bank;
- c) introducing a system of foreign-exchange allowances for enterprises to include part of the foreign-exchange income they earn from exports.

It is worth emphasizing that these allowances are aimed at supplying imports for production designated for export based on these raw materials. Alongside the direct producers, coproducers are also authorized to have such accounts. The size of the coproducer's account allowance depends on the bilateral agreement between the final exporter (who transfers part of his allowances to the coproducer) and the coproducer.

As we can see from the above, the allocation of foreign exchange is basically reserved for two categories of enterprise: for those who are carrying out operational programs (along with the production of essential raw materials) and those which are exporters. This is the result of the limited import possibilities. The large group of enterprises which is not involved in operational programs and does not export its products does not have the right to obtain foreign currency.

Such a state of affairs cannot be continued. It is true that in this way it is possible to incline certain enterprises to undertake production under the auspices of operational programs or for the purpose of export, but owing to purely technical considerations this will not work for all enterprises. Thus we are left with the problem of getting foreign exchange for the enterprises producing for domestic needs (for example, for the domestic market) but not within the realm of operational programs. In the current situation it seems useful to provide these enterprises with the possibility of selling foreign exchange at the commercial rate to balance the marginal demand with the supply of foreign exchange. We should also consider the concept of making the sales of foreign exchange at the normal rate dependent on the enterprise's deposits amounting to the rate's multiple. We should consider adopting the principles that these deposits cannot be included in prime costs. It is merely a question of not burdening potential buyers with them but of charging them against the enterprise's profits. These deposits could be returned to the enterprise in the future, when the enterprise begins its export activity.

In terms of managing labor resources, we should emphasize that since the onset of the reform there have been no restrictions to hamper an enterprise in structuring employment or setting the level of employment, but we should note the great anomalies in this area. Owing to the fear of unemployment which could result from the operation of the enterprises' self-financing principle, a decision was made in 1981 to permit earlier retirement for people who had not yet reached retirement age. The hypothesis was that about 200,000 employees would avail themselves of this privilege. The effects far exceeded expectations, and actually far more people retired between 1981 and 1983, about 500,000. This fact is having a very serious impact on the labor market, with the effects being most keenly felt by those plants from which 10-20 percent of the workforce left, usually employees "at their peak," with high qualifications and great experience. For these very reasons the departures cannot soon be made up for by new employees.

In describing the situation in the most general terms, we should say that the processes of rationalization of employment and the reduction of it to fit actual needs of the places of employment have not occurred, at least not during the first half of 1982. On the contrary, there have been clear tendencies to "retain" unneeded employees. There is great resistance to changing jobs. There is not enough activity to transfer or requalify people. There is the justified opinion that even in the economic system itself the enterprises lack sufficient incentive to reduce employment. First of all these issues must be subjected to analysis and possible correction within the system.

In the long run it is essential to do the following: 1) make better forecasts of the economy's needs for qualified personnel; 2) structure conditions to insure greater mobility of the workforce in terms of both geographical location and vocation; 3) create the possibility for vocational retraining and requalification of employees and their more rapid adaptation to the structure of labor demand.

The reformed economic mechanism is based on the principle of the enterprises' self-financing, which consists of the enterprise's covering all its expenses out of the income it receives and of its bearing complete responsibility for the results of its operations.

The introduction of incentives for economic progress and the assurance that the enterprise's independent decisions will coincide with the overall social goals in enterprises which operate on the basis of self-financing are the key issue of the reform's economic mechanism. This consistency is to be assured through the workers' interest in positive financial effects and an "arrangement" of principles of operation and instruments of influence that will insure that the positive structuring of the financial effect will be the result of greater operating efficiency and production expansion, so that the improvement in the effect results from a growth in the volume of production, its better quality, and its greater adaptation to social needs and effective utilization of production elements.

A feature characteristic of the reform is the adoption of the principle that the zloty is universal. This means that any zloty of financial result, regardless of how obtained (by lowering material costs or by reducing labor intensity, by exploiting fixed assets or by improving quality, by increasing export production or by increasing production for the domestic market, by increasing prices or by increasing sales volume), is treated in the same way. For example, no distinction is made that more profit can be allocated to the employee fund if the profit is increased as the result of saving materials than for example as the result of increasing production, and so on.

Sometimes we encounter proposals for a return (because such systems worked in the past) to a differentiation of the zloty depending on their source, their origin, but we must realize that in practice this would mean we would have to return to methods which did not work in the past. As we can see from past experience, such solutions are immediately doomed to failure and would have a bad impact on cost effectiveness as an instrument for the enterprise's decisionmaking. It would lead to "pigeon-holing" financial resources (into those "from lowering material costs," "from increased labor productivity," "from improved quality," "from increased export production," and so on) and to undermining the position of the zloty and of economic ties in the economy. In the final analysis this would mean a departure from the basic principles of the reform.

Here we should explain a misunderstanding which has come into the matter. We can find views that the economic system which has been introduced makes it impossible to provide an incentive for thrifty use of raw materials, for improving quality, and so on, because everything "is thrown into one bag." Now, it must be emphasized that the matter of encouraging employees to do certain things (for example, make good use of raw materials and power, reduce the number of defects, upgrade product quality, and so on) should be resolved by "translating" the general principles of the enterprises' activity into the language of concrete goals, in keeping with the various individual work stations and jobs. There are many examples to show that it is possible to set financial benefits for the individual worker or group of employees to obtain specific results in "real-life" terms.

There is no doubt that trends to "differentiate profits" will be all the stronger as the reform mechanisms are less effective in evoking and bringing about the desired directions of activity in the enterprises (real decline in costs, greatest possible use of production apparatus, increased labor productivity, improved production quality, adaptation of the structure of production to meet the needs of the national economy) and as there are stronger phenomena of the system's defects expressed particularly in the enterprises' tendencies to maximize financial effect by driving up prices through the exploitation of market imbalance and monopolies, but we must count on the danger of the enterprises' obtaining high financial results with a low level of production activity and a low degree of use of the production factors.

In order to counteract this danger, we should pay particular attention to the principle of structuring prices and taxes so that the financial results of the enterprise reflect only, or almost only, the real increase in production or the real progress in utilizing production elements. This is a basic condition to maintaining the principle of the zloty's universality and bolstering its position. Otherwise there is bound to be the tendency to "atomize" profit, to separate it into "good" and "bad" parts with adverse consequences.

On the consumer goods market, about 40 percent of the value of goods and services are covered by official prices, about 15 percent are governed by regulated prices, and about 45 percent are covered by contract prices. The ratios for the wholesale market are as follows: about 20 percent is covered by official prices, 5 percent by regulated prices, and 75 percent by contract prices. The scope and principles for setting official prices in the light of experience give no cause for concern. On the other hand, there are important problems related to both regulated and contract prices.

We notice a certain unpredictability with regard to regulated prices (for example, as the result of social pressure and and inadequate understanding of the problem) in determining their scope. The very construction (principles of setting) of regulated prices causes grave reservations. There is a proposal to expand the scope of regulated prices from the current level to include raw materials and major partly-finished products. This is all the more important in that at present many enterprises are producing final products for which official or regulated prices have been set, while the supply of raw and other materials is based on contract prices, often elevated ones. In keeping with the logic of the reproduction processes, this would provide order for the principles of price structure. At the same time attention is directed to the advisability of departing from the present formula for setting regulated prices (prime costs plus a profit surcharge in relation to processing costs), because it does not create an incentive for management efficiency. The proposal is to tie the regulated price to prices on the world market.

The question of contract prices needs more discussion. Under normal conditions these prices would make demand equal to the supply and create an incentive for the producers to increase production for which there is a demand, up upgrade quality, and to reduce production and transport costs. Where there is a serious market imbalance, permitting contract prices to operate is bound to lead to increased prices.

During the first stage of the implementation of the reform, a jump in prices was observed. At first this shocked the society, particularly since it occurred at about the same time as the increase in prices on manufactured goods and the rise in food prices. These reactions consisted of expressions of opposition and demands for administrative action to reduce prices of manufactured items (contract prices). On the other hand, we noted the fact of the very rapid buying up of

goods at the new, very high prices, which showed fear of further price increases and great "market hunger."

It was the public's feeling that the price increase which occurred during the first half of the year was generally associated with price "license" on the part of the enterprises, but the initial cause of the phenomenon was the change in official prices on the basic means of production, while the rise in contract prices was a feedback process, which adapted the value of the stream of production to the new value of the "input" of materials. Such a view finds its justification in the results of the analysis of price movements over the successive months following the implementation of the reform. There was particular price increase pressure during February and March, as the effect of the producers' adapting to the new higher level of producer prices. On the other hand, beginning in April the price movements "quieted down." The data in Table 1 show this.

Table 1. Price Increases (Previous Month = 100)

(a) Wykaz zmian	Month Miesiąc					
	styczeń	luty	marzec	kwiecień	maj	czerwiec
	Jan	Feb	March	April	May	June
(b) Ogółem ceny towarów i usług nabywanych przez ludność	118,7	108,9	108,8	103,3	102,9	99,9
(c) w tym: żywność	111,7	102,6	103,6	103,0	104,3	99,1
(d) artykuły nieżywnościowe	127,8	120,7	116,1	104,3	101,0	100,6
(e) w tym: odzież	101,3	110,7	125,3	103,3	103,4	101,1
(f) artykuły gospodarstwa domowego	132,8	151,9	119,7	106,8	101,5	101,9
(g) usługi	112,7	121,1	101,9	106,0	102,2	104,9

[Key]

- (a) Description
- (b) Goods and services bought by the population
 - Breakdown:
 - (c) Food
 - (d) Nonfood items
 - Breakdown:
 - (e) Clothing
 - (f) Household goods
 - (g) Services

Despite the great increase in prices over the scale of the half-year period, the market managed to gain some balance in certain areas, but these areas were relatively few. Two factors have an impact here. The great decline in production and supply of a large share of nonfood consumer items is decisive. The other thing is the enterprises' policy in setting prices. It is clear that supply and demand relations had prac-

tically no impact in setting contract prices. The deciding factor was the level of costs along with the profit the enterprise counted on obtaining.

The following dangers are among those which appear in the structure of price-market relationships:

-- Where there are no impeding influences, inflationary price growth (under conditions of severe material and foreign-exchange shortages) can advance too much, and this could lead to a breakdown in the whole economic mechanism in the realm of its incentive role,

-- If public pressure is responded to too quickly, excessive government action of the administrative type can occur, and this too can lead at the very outset to a breakdown of the incentive mechanism.

These dangers can be headed off in the following ways. It is a question of perfecting the principles and operation of the price system and the tax system to make it impossible for the enterprises to have a profit monopoly, high economic results by reducing production sizes and driving up sales prices. This can be facilitated, for example, by the possibility of depriving the enterprise of the right to use contract prices, unless there are suitable conditions for this (basic market balance and possible competition) or if it becomes known that the enterprise is engaging in monopolistic practices. This direction of action will be developed in an antimonopoly law which is being prepared.

Alongside income from sales, the size of prime costs exerts a great influence on the size of gross profits. In the first place we must notice that the enterprise cannot arbitrarily include in its costs all those expenses which it considers to be the cost of its operations. This will be counteracted by a Council of Ministers directive on what are called "unjustified costs," which will be treated in clearings of accounts as the enterprise's profits and not as its operating costs (if, for example, it is found that it can include 5 percent of the sales value in the costs as justified losses, for example, from defects, but the enterprise incurs losses amounting to 10 percent, then the 5-point difference will be considered profit and be subject to income tax). It is merely a question of seeing that the enterprise does not charge the society with the costs of its extravagance or mismanagement. It would also seem useful to prohibit including in the costs the depreciation on machinery and equipment not being used or excessive administrative expenditures. The assumption has been adopted that certain categories of costs will be considered justified only up to a certain level. This coincides with the spirit and principles of the reform. It is supposed to sort of incline the enterprise "from the outside" to make full use of production potential and manage resources in a thrifty manner.

Prime costs consist of the total of material costs and the processing costs (labor plus depreciation). It should be noted that while it is always beneficial for the enterprise to reduce material costs in any case and it should therefore be interested in reducing them, under certain conditions with a progressive income tax dependent on the profitability rate (ratio of profits to processing costs) there may be a tendency to increase processing costs, because in this way it is possible to increase the reference point, reduce the profitability rate, and remain in a lower income tax bracket. The principles for calculating costs should make it impossible to increase processing costs artificially, for example by carefully specifying the method of calculating depreciation (eliminating depreciation costs for inactive equipment) and also general costs (for example, setting the permissible ratio of clerical and administrative employment). Especially important are mechanisms which make the level and growth rate of remuneration directly dependent on the real effects of work. These are problems which should be the subject of continual, in-depth analysis.

Complaints are raised that the progressive nature of the income tax hampers the incentive to increase production and improve management efficiency (or profit gain), because as profit increases a larger and larger share of it goes into the budget in the form of income tax, and that enterprises with the large share of personnel costs are put in a privileged situation, while those with a high ratio of material costs are financially disadvantaged.

An alternative solution would be to adopt the principle of a "linear" tax, which would mean that, for example, 50 percent of the profit is turned over to the state budget in the form of income tax and the other 50 percent remains available to the enterprise, regardless of the amount of profit obtained. The basic circumstance which determined the adoption of the concept of a progressive tax was the desire to combat the creation of income "towers" in connection with the different abilities enterprises had to obtain profits, particularly during the initial stages of the reform. There is no doubt that the tendency at income egalitarianism can undermine the enterprise's incentive to increase its effectiveness and obtain high profits.

It should also be noted that the enterprise can be awarded tax relief, with a corresponding reduction in its income tax. Exemptions are usually granted to encourage the enterprise to undertake specific action, for example, development (investment credit), cultural activity (tax exemption on the part of profit allocated for cultural purposes), social activity, and so on. Exemptions can also be granted to provide more equal opportunity for those enterprises with excessive material cost ratios (for example, in apparatus industries).

The "safe" formula adopted during the first stage of the reform, the formula of imposing an income tax on the enterprises, was largely the result of a fear of the social effects of hard-to-predict differences in income

from one enterprise to another. It should be admitted that the data for the first half of 1982 confirm these fears (see Table 2) showing great differences in the enterprises' income situation in terms of the profitability achieved. Thus, the progressive income tax was an important factor in leveling the differences in structuring the profit for distribution.

Table 2. Enterprises, Sales, Profits, and Income Tax in Industry According to Profitability Level During the First Half of 1982

Wyszczególnienie		Liczba przedsiębiorstw	Sprzedaż w mld zł	Zysk w mld zł	Podatek dochodowy w mld zł
1		2	3	4	5
(a)	Przemysł ogółem*	6612	2 897,8	411,3	204,3
(b)	z pozycji ogółem przypada na przedsiębiorstwa rentowności (relacja zysku do kosztów przerobu)				
	under 0 proc.	108	72,7	—	—
	0 — 5 proc.	110	80,9	0,8	—
	5 — 10 proc.	176	44,0	1,4	0,1
	10 — 15 proc.	317	63,0	3,3	0,3
	15 — 20 proc.	354	113,3	9,3	1,9
	20 — 25 proc.	390	153,7	12,9	2,9
	25 — 30 proc.	380	154,7	14,0	3,7
	30 — 50 proc.	970	473,3	39,1	22,4
	50 — 80 proc.	904	612,1	92,3	62,9
	over 80 proc.	936	1 050,8	201,8	134,3

*Owing to incomplete information provided by the enterprises, the total in this item does not equal the sum of the columns.

[Key]

- | | |
|--------------------------------------|--------------------------------|
| (1) Description | |
| (2) Number of enterprises | (a) Total industry* |
| (3) Sales in billions of zlotys | (b) Breakdown of total by |
| (4) Profit in billions of zlotys | profitability level (ratio |
| (5) Income tax in billions of zlotys | of profit to processing costs) |

Alongside all the system's weaknesses, which are being subjected to thorough analysis and are being eliminated, we note a number of errors and misunderstandings in interpretation of the income tax in the present formula. For example, it is suggested that it is not pay the enterprise to increase profits, because then its income situation gets worse (the tax increase is supposedly greater than the profit increase). Let us look at the matter in absolute figures. The law provides the following table for the income tax.

Table 3.

Profitability bracket (%)	0-5	5-10	10-15	15-20	20-25	25-30	over 30
Tax rate on that bracket (in percent)	0	40	50	60	70	80	90

Using the above table, let us calculate the share of profit contributed in the form of tax at various levels of profitability along with the amount of profit that the enterprise has left and the amount of tax paid assuming identical processing costs of 1,000 zlotys (see Table 4). The last column of the table shows which enterprises would lose and which would benefit from a "shift" from the progressive tax to a level tax (50 percent tax for each profitability level).

Table 4

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	8	8	90	90	0	90	-90
2	10	10	100	90	0	90	-10
3	12	12	120	108	12	108	-12
4	15	27.3	200	135	65	135	-65
5	20	44.5	250	140	110	140	-110
6	25	55	300	150	150	150	-150
7	30	60	350	160	190	190	-190
8	40	66	400	180	220	220	-220
9	50	66	450	175	275	250	+125
10	60	75	500	180	420	300	+180
11	70	75	550	180	511	350	+161
12	80	75	600	200	600	400	+200
13	90	77	650	207	653	450	+203
14	100	78	700	230	700	500	+200

[Key]

(a) Example number
 (b) Profit obtained in percent
 (c) Percentage of profit going as tax
 (d) Amount of profit assuming processing cost of 1,000 zlotys
 (e) Share of profit remaining in the enterprise in zlotys

(f) Share of profit paid in the form of tax in zlotys
 (g) Amount of tax with a level tax (50 percent of profits) in zlotys
 (h) Loss (-) or gain (+) from shift from progressive tax to a level tax, in zlotys

We can see from the above calculations that: 1) given the same processing costs, it will be advantageous for an enterprise to increase its profit, although this advantage will decrease as the rate of profitability increases; 2) the progressive tax table favors (in relation to the level tax) those enterprises with the lowest profitability. Therefore, we cannot agree with the hypothesis that the progressive income tax is a disincentive to thrifty use of materials (because each reduction in the consumption of materials increases profit, a certain portion of which remains in the enterprise, although this portion declines as profitability rises).

The processing costs issue is more complicated. Indeed, with the same amount of profit, an increase in processing costs can provide the enterprise with an unmerited advantage. Using the data presented in the table above (example number 7), with a profit of 400 zlotys and processing costs of 1,000 zlotys, the profitability level is 40 percent, but the share of profit going for tax is 60 percent. This means that 160 zlotys remains in the enterprise, and the tax is 240 zlotys. Now let us assume that the enterprise receives 400 zlotys of profit, but processing costs increase by 200 zlotys, to 1,200 zlotys. In this way the profitability level declines from 40 percent to 30 percent (400 zlotys : 1,200 zlotys X 100). The share of profit going for tax automatically declines from 60 percent to 50 percent, which means that the enterprise keeps not 160 zlotys but 200 zlotys. We must not fail to consider such a possibility, and it is always essential to look at the factors which have an impact to produce an increase in processing costs. Let us remember that the major components of processing costs are depreciation, personnel costs, and other nonmaterial costs (for example, bank interest). Unless it threatens the sale of production (by overly increased prices), the enterprise may be interested in raising its processing costs, especially by increasing individual earnings (the present limitations in this area are charges on the increase in the mean wage above a certain threshold) and increasing the number of employees, or else by depreciating production equipment which is not being fully utilized. We might suppose that in the enterprises' operations these methods are or can be utilized. This element of the mechanism can effectively interfere with rationalization of employment and the full use of production equipment. This danger was recognized from the beginning.

It should be remembered that in "The Directions of the Reform..." adopted by the Ninth Party Congress, a primary role was given to the economic system variant in which it is not the enterprise's income which is taxed but the production elements. In keeping with this principle, the enterprise would contribute to the state budget out of gross profits a tax on its fixed assets, assets in circulation, payroll fund, area of land occupied, and other natural resources used. In this way (with the right price structure) the system would encourage thrifty management of production elements and would not hamper initiative or undertakings to increase the effectiveness and development of production, regardless of the profit level achieved. On the other hand, it should be emphasized that this principle cannot be introduced until the value of fixed assets is brought up to date and price-setting matters are put in order.* Attention should also be given to the fact that a stable system of costs and prices is necessary for the proper operation of the principles mentioned above.

Of course, if we replace the income tax with a tax on production elements, then the tax system's impact on fiscal-economic balance is lessened, as well as its impact on market balance, so that the more stable the economic system becomes, the greater its possibilities for application.

*According to Council of Ministers Resolution dated October 1981, the project to update fixed assets will be completed in 1983.

The other variant of the enterprises' economic system recommended in "Directions of the Reform..." consists of applying a level income tax or a level-progressive income tax dependent on the profit bracket. The tax bracket, defined as the ratio of the amount of profit to the amount of fixed assets and assets in circulation has the virtue of inclining the enterprises to increase their own funds (development activity), and it precludes the possibilities for manipulation in using "processing costs" as the basis for defining profitability and therefore the imposition of the income tax. Of course, the use of the profit bracket will be possible after the value of production assets (fixed assets and working capital) is brought up to date. In selecting the type of tax (level or level-progressive), we should take into account the impact of prices on the structuring of income and the differences in the conditions for obtaining profit from one subsector of the national economy to another. The determinations as to the direction of changes in the members of the enterprises' economic system should be made as soon as possible, but not too soon. Particular attention should be given to the results of the analysis of the operation of previous principles and to an assessment of the conditions which must be fulfilled in order for the modified principles to be able to produce the results anticipated.

The system of remuneration is the most important link in the enterprise's economic system.

The new system of remuneration, in conjunction with the principles for structuring the funds for remuneration (stemming from the economic reform) should provide more powerful incentives for good work, for example, owing to the creation of the possibility of payment for more productive and effective work which is simpler and easier for the average employee to understand (and at the same time better). This result is to be achieved through great simplification of the construction of the new principles of remuneration, especially by reducing, in terms of both number and as a share of total remuneration, the components not related to results of work. It is essential to elevate the rank of plant wage policy, if this goal is to be achieved.

The main burden of responsibility for carrying out the wage policy should be put where the funds for remuneration are created, that is, in the enterprise. Centrally we can set only general overall principles of wage policy which require uniform regulation, especially overall basic wage levels, principles for wage scales, principles for cost-of-living increases, the level of the minimum remuneration, the scale of compensatory tax, the growth rate of wages in the budget-financed sphere. On the other hand, guided by the needs of plant wage policy and overall principles and labor code regulations in effect, the enterprises establish detailed principles and conditions of remuneration for employees to cover the following: plant wage tables, forms of wages (time, bonus-time, contract, and so on); conditions and criteria for promotion and methods of evaluating employees' work; conditions and criteria for bonuses and for awards out of profit for distribution.

Basic changes are being proposed in the principles for awarding bonuses. The function of the bonus is to differentiate remuneration on the basis of work productivity and efficiency. The basic rate should be similar for work of equivalent complexity and difficulty, but the bonus should make a distinction in remuneration on the basis of the effects of the work, its productivity. The enterprises' jurisdiction in this area has been defined unequivocally: according to its needs and resources, the enterprise makes an independent determination of the principles of giving bonuses to employees.

There is no intention of imposing by administrative fiat either the forms of awarding bonuses or the scale of distinctions made in granting individual bonuses to enterprise employees or management.

The enterprise may allocate part of its profit for distribution for current bonuses awarded at the end of each quarter. The forms and methods of awarding bonuses are the enterprise's internal affair. The bonus fund out of profits should be managed in such a way as to produce measurable economic effects. It is therefore essential for the enterprise itself to specify precisely the principles and criteria for awarding individual bonuses. We should avoid an even division of this fund, because it is supposed to make a distinction between the effects and achievements of individual employees and encourage people to achieve specific goals through the rules adopted for the awarding of bonuses. This means adapting the forms of remuneration to working conditions, technology, work management, and production, and above all to the worker structure, the expectations of the working forces, and the hierarchy of values. The selection must be based on knowledge, experience, and a profound analysis of the effectiveness of the wage forms used in the past.

In order to adapt the wage increase to the requirements of market equilibrium, a progressive tax on increases in mean wages has been introduced. The level above which the tax is imposed and the scale of the tax are specified each year in the budget law, on the basis of projections concerning the money-market situation. Funds gained from the mean wage growth tax will be used for the Vocational Activation Fund, or FAZ, which is used to finance retraining of employees and expenditures related to changes in the employment structure. The principle adopted for the FAZ tax is the source of great controversy, because the tax on mean wage growth can lead to an artificial expansion of the number of lower-qualified, lower-paid employees for the purpose of making greater increases in the wages of other employees without paying the progressive fees for the Vocational Activation Fund. Of course such a strategy on the part of the enterprises is pathological, but we should expect it to occur. The possibility of applying it shows that not all conditions for the proper operation of economic mechanisms have been added to or understood by plant management, because under normal conditions this is a "short-legged strategy," inasmuch as excessive employment causes an increase in costs and prevents economical management of funds to increase remuneration, unless the effects of the rise in these costs can be covered out of price increases and borne by the society over an extended period of time.

On the other hand, we cannot avoid noticing the weaknesses in the current FAZ tax system. Here we are talking about two aspects. One is the fact that it widens the earnings gap (the numerical value of one producer with a mean wage of 8,000 zlotys is different from that of another with 15,000 zlotys). It also fails to encourage the rationalization (cutting) of employment. For this reason the problem will be analyzed from all sides, particularly in terms of the possibility of replacing the tax on mean wage increases with a tax on the increase in total wages. Here we should consider the variant of the standard ratio of the increase in total wages to the increase in net production, to determine the bracket above which the FAZ tax is imposed. On the other hand this must be closely correlated to an analysis of the potential social effects (wage level differentiation) and economic effects (market situation). The socioeconomic effectiveness of such a system depends on the effectiveness of a whole range of instruments of economic policy, including solutions in the tax system (compensatory tax).

It will only work to give enterprises full independence in the realm of employment and remuneration if the self-financing principles are closely followed, because under such conditions the enterprise with excessive personnel costs (stemming from an increase in employment or an increase in wages or the two together) not only will not make a profit but will incur losses and will face the possibility of failure with all the accompanying consequences for the directorate, the self-government, and the workforce of the enterprise.

A logical addition to the new principles of the enterprises' operation is the drafting of a procedure to follow when the enterprise loses its ability to finance itself. According to the law on state enterprises, the conditions, principles, and manner of proceeding in this realm will be set down in a law on restoring the health of state enterprises' management and on bankruptcy. The draft of the law prepared by Group X of the economic reform commission was given to the public for discussion in August of 1982. The draft's point of departure is that the enterprise's fear of bankruptcy should incline it to manage properly, and to seek and implement those undertakings aimed at the enterprise's economic health.

A distinction is made between three phases: 1) internal procedures, 2) board of commissioners, 3) bankruptcy of the enterprise.

When the enterprise shows losses, this is the basis justifying the undertaking of internal procedures, which consist of drawing up a program to improve the enterprise's economic health, taking into consideration a method of covering the losses, a description of undertakings aimed at improving management effectiveness, and an operating timetable for getting out of the red. The program for restoring the enterprise's healthy economic situation included in the internal procedure should contain an analysis and possibly a review of the con-

tracts and agreements with other units of the national economy and the use of appropriate credit, which will depend on the banks' commitment to restoring the economic health of the enterprise. Because the internal procedure is conducted under conditions where the operation is showing a loss but there are sufficient reserve funds or bank credit to cover it, there is still no problem yet of covering the losses from other sources.

In the case where the internal procedure does not lead to eliminating the enterprise's losses, then (when justified by the public interest) a board of commissioners is formed, or bankruptcy proceedings are initiated (if such a matter does not occur).

The creation of a board of commissioners means that the enterprise loses its independence and that the founding body takes over part of the responsibility for its results. The former is manifested in the commissioners' administration's taking over the function of managing the enterprise at the simultaneous exclusion of the previous enterprise bodies (workers' council, directorate). The latter will be expressed in having the founding body provide finances to cover the losses.

The basis for declaring bankruptcy is the enterprise's insolvency, expressed in the fact that its income from all sources (revenue from the sales of goods and services, components of fixed assets, bank credit, the financial assistance of other institutions) is not sufficient to meet the enterprise's debts not underwritten by the founding body or the bank. Bankruptcy proceedings are conducted by the voivodship court, which after hearing the view of the founding body and becoming familiar with the views of the enterprise's worker council, names a bankruptcy legal adviser, unless a solution appears before that. Immediately after the naming of the legal adviser, he is obliged to announce the enterprise's bankruptcy in the register of state enterprises and to publish in the central daily newspaper the call for creditors to announce their liabilities within 3 months of the date of publication. At the end of the deadline for creditors to come forward, a hearing is held to make an agreement with the creditors. There is provision for the representatives of the founding body to be obliged to be present at the hearing. If no agreement with the creditors is reached, a deadline is set by which the units of the socialized economy can make offers to buy the enterprise. Purchase priority is given to the unit which offers the highest price. If the prices are equal, priority of purchase is given to state enterprises.

We can see from the above that as the result of the bankruptcy procedure it is possible to change the structure of ownership of the assets only in the realm of the socialized sector.

The health-restoring influence of introducing the possibility of bankruptcy for the benefit of a healthy economy consists of the fact that it is a sort of reallocation method (new distribution of production assets),

consistent with the criterion of effectiveness expressed in the payment capability of units of the socialized economy. There is the parallel necessity to shift employment, because the moment the bases for bankruptcy are created there is an immediate step of termination of all labor contracts made with the enterprise. This fact introduces a new element of incentive related to keeping old jobs. And although the state bodies bear the responsibility to create employment possibilities for all those looking for work, after all the threat related to losing one's previous job should be a strong incentive for the workforce to be involved with their previous work and with the level of economic efficiency in the enterprise. Overall, then, the category of enterprise bankruptcy which has been introduced under the auspices of the economic reform represents an important incentive for the workforce, employee councils, and management of the plants, giving them a direct interest in the efficiency of the establishment's operation, and it is a new instrument for the flexible adaptation of various components of the production forces to changing social needs. Given the past continual lack of profit (which is not justified by the public interest) in many enterprises and the immobility of the production apparatus and labor resources, structural changes could occur only through growth and not through a shift of the existing potential. The consistent implementation of the self-financing and bankruptcy principle in the enterprises (in those cases where the circumstances warrant) is a drastic change but one which is essential to move the economy along the road of technical-economic progress.

Criticism of Economic Plans

Warsaw NOWE DROGI in Polish No 10, Oct 82 pp 145-152

[Article by Stefan Jedrychowski: "Footnote to Two Important Documents"]

[Text] This August the Council of Ministers Planning Commission drafted a document entitled "Variant Conceptions of the National Socioeconomic Plan to the Year 1985 and Initial Targets for 1986-1990." This document was published in RZECZPOSPOLITA and in ZYCIE GOSPODARCZY, and it is the subject of public discussion. This September the government plenipotentiary on the economic reform presented the Party-Government Commission on the Economic Reform with "Draft Report on the Inculcation of the Economic Reform During the First Half of 1982." This report is also to be published after it has been edited and the comments made have been taken into account.

Both of these documents were discussed at a session of the Economic Reform Commission held 22 September of this year. The consultational economic commission drafted its opinion on the planning commission document, as well as its own opinion on the incultation of the economic reform quite independent of the opinion presented by the government plenipotentiary on the economic reform. Both these opinions were discussed at the consultational economic commission plenum on 27 September, and probably will be published in ZYCIE GOSPODARCZE after presentation to the government. These problems have also been discussed by government bodies.

Now, here is the bulk of the comments footnoting the two documents. First of all we should emphasize the comprehensive nature and reliability of the report draft drawn up by the government plenipotentiary on the economic reform. It provides a great deal of information for analysis and conclusions.

In the initial section of the report draft a scheme of the cycle of the previous attempts at reform is presented. It is an interesting attempt at generalization, but it suffers from certain oversimplifications and excessive schematization.

First, it talks about the economic crises in the first half of the 1950's and the latter half of the 1970's. I think that we can only talk about an economic crisis now. In former periods we were not dealing with economic crises, because material production and national income never declined before. In former periods we can talk about tensions in the economy and social conflicts and political crises caused more or less by these tensions.

Second, the draft report takes the source of the crisis phenomena and tensions to be the paralysis of the directive-distribution system, but the major cause of the current crisis was undoubtedly the erroneous voluntaristic socioeconomic policy, which paid no attention to the realities. To a great extent the errors in socioeconomic policy also contributed to the creation of tensions in previous periods. The directive-distribution system is inept in other socialist countries too, but they do not have the crisis that we encountered at the end of the 1970's and the beginning of the 1980's.

Third, this scheme also looks to endogenous factors in the economy as sole sources of tensions and crisis and blocks to reform, neglecting the political factors. Meanwhile, the failure of the reforms in the 1950's was determined by the lack of the political will to conduct a reform, and in the 1970's this political will was misled, which caused a return to the directive-distribution methods the moment that difficulties were encountered. At the present time we are conducting a reform under incomparably worse objective conditions, but there is now the political will to continue it and carry it through to the end.

Human Attitudes

People's attitudes will be of key importance to the success of the reform and the program for getting out of the crisis. In the chapter entitled "Problems of Social Incentive and Social Aspects of Development," the planning commission document correctly emphasizes this. We may question whether the authors are correct in their statement that we can anticipate positive reactions from the population groups with the lowest incomes, although they are eligible for social welfare, because the issue of interrelationships between life and awareness is very complicated, but it is undisputable that the success of the reform and the program for getting out of the crisis will depend on the attitudes of the basic working forces,

that is, workers with intermediate- and high-level earnings. At the present time this attitude is expectant, restrained, and sceptical with regard to the economic reform, which in that group has still not produced tangible benefits. On the contrary, workers often equate the results of the reform with the effects of price increases, and a decline in real earnings and the standard of living, not realizing that the decline in the standard of living is the result of the crisis and not of the reform. We can expect the attitude of the workforce to depend on positive changes as the employee self-government develops, although at present its attitude to self-government reaction is far from enthusiastic.

The authors of the planning commission document correctly tie their hopes for a positive change of worker attitudes to the wage system reform promised for 1 January 1983, but it will all depend on whether in reality it is possible to differentiate earnings on the basis of the quality and productivity of work. If the reform boils down to an increase in mean wages based on equality, it will only be an inflation factor and not contribute to increase labor productivity or production.

The draft report of the government plenipotentiary for the economic reform emphasizes tendencies toward equal treatment and distributes profits for two purposes: maximizing the interests of the workforce and developing the enterprise. But we should note that the situation can change, because the self-governments will begin operating on a massive scale, inasmuch as the activity of the trade unions will set in motion. The Yugoslav experience serves as a warning. For this reason we should exercise the greatest possible care with the proposals to do away with the FAZ, which is presently the only instrument to safeguard the distribution of profits against excessive priority to wages and bonuses at the cost of development.

It must be added further that the minor wage system reform this past July is not assessed in unequivocally positive terms by everyone. There are many views stating that it makes the level state of wages permanent and actually worsens the situation, keeping them all equal.

Inflation Rate, Prices

Assumptions concerning the inflation rate are of key importance in socioeconomic policy and the program for getting out of the crisis. The plenipotentiary's draft report talks about a moderate inflation of prices, and we can agree with this under the existing conditions, but the Planning Commission document, in this case as a single variant, predicts 25 percent inflation in 1983, 15 percent in 1984, and 10-15 percent in 1985. This means that altogether over 3 years, in terms of compound percent, inflation will be on the order of 58-65 percent, and this follows upon this year's price hike. This is not a moderate rate of inflation.

The Planning Commission's document does not include assumptions in the realm of an increase in nominal and real wages and income of the population. We do not know whether price increases are to be compensated for in wages. If they are, if price increases are not to restore equilibrium, why bother?

Our Hungarian comrades use the criterion of social forbearance in their price policy. For example, in increasing meat prices in July 1978, they recognized a mean increase of 33 percent to be the limit of what the society would stand (although the prices of certain items and products increased even more, even by 100 percent), and this limit was not exceeded, despite the fact that a mean price increase of 33 percent on meat did not provide for doing away altogether with the budget subsidy.

We think that effort should be made to slow inflation, holding it within the limits of a few percentage points. This will make it necessary to spread over a longer period the more or less rational intended rise in producer [wholesale] and retail prices. In implementing their economic reform, the Hungarians spread the producer and retail price reform over 12 years, and they still have not finished.

In order to slow inflation, changes in the ratios between contract prices and regulated prices in retail trade are also needed. The share of contract prices should decline in the sphere of retail trade from the present 48 percent to about 33 percent. Here I refer again to Hungary, because after all the Hungarian economic reform enjoys the reputation of having been successful. Now, in Hungary at the beginning of the reform, each of three categories covered about one-third of turnovers: fixed prices, maximum prices, and free-trade prices. It would be better for the scope of contract (free) prices to be less, but for them to coincide with the initial price assumptions for balance than for them to be transformed into "just" prices or "correct" prices according to the medieval doctrine of St. Thomas Aquinas. I think in particular that we should use regulated prices and rationing for standard footwear and clothing for both children and adults. The process of expanding rationing to include footwear and clothing has after all already begun.

As the result of inadequate coordination of economic decisions in reforming producer prices, the prices on basic raw and other material have been set at the level which we pay for imports from countries of payments area II (capitalist countries) or obtained in exports from this area, calculated at the rate of 50 zlotys on the dollar, despite the fact that most parties to the discussion at the session of the Committee on the Economic Reform came out for what is called a submarginal rate of about 65 zlotys on the dollar.

Meanwhile, in another independent decision, the rate in export and import transactions was set at 80 zlotys on the dollar. This rate after all does not meet the requirement of providing for the profitability of 75-85 percent of exports.

Economists correctly criticize the disparity between the rates and are calling for the producer price level for raw and other materials to be raised to a level for the dollar rate assuring profitability of 75-85 percent of exports, but this would require a new increase in producer and retail prices on a similar scale as that of the 1 July 1982 operation. Owing to social and political reasons, this is absolutely impossible.

The program for bringing the basic prices of raw and other materials closer to the level implied by the dollar rate must be extended over a number of years. I personally think that prices on imported raw and other materials should be set taking into account a lower level of transaction prices in payments area I (socialist countries), while the prices on raw and other materials that are exported should take into account the anticipated influence of a possible increase in exports, resulting in a decline in world prices.

The draft report of the government plenipotentiary on the economic reform is favorable in his assessment of the fact that the percentage share of trade margins in retail prices has not increased. Actually, it ought to decline, because there is no reason for the margins of trade enterprises which are to cover their trade costs and provide trade enterprises with appropriate profit to increase by the same percentage as prices. The call for trade margins to be set as rates dependent on the labor intensiveness of turnover is correct.

Market, State Control

I share the view that it will be difficult to achieve overall market balance by 1985. Even the authors of the Planning Commission document admit that market equilibrium will not be achieved by 1985 in the realm of meat (and, let us add, meat products), the goods of light industry (especially clothing and footwear), and durable goods of a higher order. But these items make up a substantial share of retail turnovers. Thus, in order to obtain overall market balance, there would have to be substantial market surpluses of other goods and services to make up in this area for the shortages of the above-mentioned items. Then one or the other, either the surplus goods and services will not be sold, which in the long run will lead to a decline in their production and supply, or, in order to sell them, it will be necessary to reduce prices. Either way, the population's expenditures to buy goods and services will be lower than anticipated. Therefore, there can be no overall market balance without sector balance in the realm of such important goods as clothing, footwear, and meat and meat products. We should also remember that in 1985 the population's income will be increased by about 180 billion zlotys from the sale of revalorization bonds on savings deposits along with interest. This will make it difficult to achieve overall market balance. Given the impossibility of achieving market balance for important sectors, it will be necessary temporarily to expand the scope of government control for certain basic manufactured goods, at the same time eliminating control in those sectors where it is possible to achieve balance, such as, probably, grain products, certain confectionary items, liquor, and cigarettes.

Employment

We must recognize that in 1981 we suffered a setback in our employment policy. Fearing massive unemployment, we developed a whole package of undertakings only two of which proved effective: early retirement and

upbringing holidays, but these very ones which were effective proved erroneous or at least premature. The problem of the surplus of labor in many enterprises and institutions did not cease to exist, despite the enterprises' announced labor shortages caused by the early retirements and upbringing holidays. In order to resolve this problem, we must go over to an active employment policy, by initiating and handling the transfer of employees from one enterprise to another. We should look over a system of incentives, remove counterincentives to reduce employment, plug new incentives into the system, and at any rate not lightly eliminate a small number of existing ones. We should examine the possibility of employing workers outside the main plant not only for public works but also in other plants, on the basis of temporary furloughs or appointments.

Implementing the Reform in Other Sectors Outside Key Industry

Although our assessment of the implementation of the reform in the socialized sector of agriculture, especially state farms, may be basically positive, we cannot unequivocally give good marks to the results of implementing the reform in small manufacturing. A production increase of 1.2 percent in comparable prices falls within the limits of error or the possibility for manipulation. The plenipotentiary's report also shows an adverse phenomenon, a decline in everyday services to the population rendered by socialized small manufacturing, of 7.8 percent in 1981 and about 10-12 percent during the first half of 1982. We should examine whether this is not the result of a decline in demand, for example, for barber, tailor, and laundry services, as the result of excessive unjustified supply outbalancing demand or the rise in the prices of services.

I think that in construction one of the major issues is the reconstruction of the standard construction base eliminated during the 1970's. I would like to refer to the fact that even under the conditions of a capitalist market economy, in the period between the wars in Poland, the army billeting fund used well worked out cost-estimate standards. It is also important to work out a program to reduce residential construction costs. The high costs of housing construction carry with them excessive debts over many years to repay credit and interest. If we recall that often these same families will be repaying young-couples' credit along with repayable grants provided for under the new system of grants, we get a disturbing picture of a whole generation that is insolvent.

Organizational Structures

I share the anxiety of the authors of the draft report of the government plenipotentiary on the economic reform, who are disturbed over the mostly branch nature of the voluntary associations. We must support other sorts of associations, but I would be opposed to implementing the principle of having enterprises participate in at least three associations, as the report recommends. This would be artificial and would lead to a fictitious situation. Associations must come from the needs and interests of the enterprises.

Social Policy

The Planning Commission document presents a correct suggestion that social policy be reoriented and adapted to existing realities, but there are no corrections following this general formulation, and the document's chapter on social policy presents a very broad program.

All the experience of countries living through economic crises shows that it is not possible to get out of the crisis without drastic savings in budget-financed expenditures of the state and local authorities, largely in outlays for administration and the general needs of the state (such as national defense) but also in outlays for social purposes. This is sad but true. It is therefore necessary to revise the social program to make it more rational and to reduce and limit those outlays which have lost their significance. I am not for doing away with measures to protect the groups which are economically weakest from the effects of the crisis, but many of our social programs have lost their *raison d'être*. Working people, for example, are coming out against amortized credit for young couples. POLITYKA recently described the paradox wherein a young couple could not buy a refrigerator for the cash it had on hand but was forced to buy on credit, because the refrigerator was available only under the auspices of credit for young couples. In the existing market situation, to withdraw from the normal cash market a substantial pool of scarce durable goods is an absurd paradox. Thus, the system of assistance to young couple at least needs to be modified. And there are sure to be other such social programs in need of revision and modification.

The Financial Elements of the Plan's Concept

One weakness of the Planning Commission document is its lack of financial elements. For example, there is no estimate of enterprise profit or a forecast of their distribution of profit into consumption and development, and without this it is difficult to see whether the assumptions in the realm of wage policy or investment policy have been correct.

The report of the government plenipotentiary on the economic reform has no evaluation of the whole tax system inclusive of the turnover tax and the stabilization tax.

Neither document talks about the reevaluation of fixed assets and its impact on the size of amortization allowances or the level of production costs.

At any rate the proposal in the draft report of the government plenipotentiary on the economic reform to include part of the amortization for the unutilized share of production potential in unjustified costs and therefore to cover it out of profits does not seem correct, because in most cases the underutilization of the production potential is not the enterprises' fault. It seems more reasonable to relieve the enterprises of calculating this part of the amortization.

I have already talked about the need for care in considering the matter of eliminating or greatly modifying the Vocational Activation Fund. I also think that we should use care and deliberation in approaching the issues related to changing the way other taxes are constructed, like the income tax on enterprises. I think the tax should operate for at least a year in order for us to be able to make a fundamental assessment of the virtues and faults of its design. It therefore follows that except for some sort of minor, obvious corrections, any major reform of the income tax on enterprises cannot take place before 1 January 1984.

Investments

In the realm of investments, it is particularly important to establish proper ratios between investments administered by the various echelons, that is, between central, local, and investment enterprises and the investments of the population and the socialized economy. To support the investments of the enterprises with central investments would be to add a nail to the coffin of the reform. The Planning Commission sets the enterprise investments' share of total investment outlays in 1986-1990 at 20-25 percent, but it does not say anything about what will happen in 1983-1985. There is also some doubt as to whether this proportion in 1986-1990 is high enough. The nature of the bank credit policy guidelines in the realm of investments is also important. I once saw a proposal for all projected credit to be divided up on the one hand among the various sectors, subsectors, and branches, and on the other hand, among the voivodships. This would be nothing but imposing some new permanent form on the old system of distribution of investment allotments. I think that investment credit should be granted by the banks on the basis of competition among enterprises from various branches and subsectors within the framework of specified goals, such as improving the balance of trade and the balance of payments, making the market situation better, removing bottlenecks and shortages in the balance of material supply, and so on.

Foreign Trade and the Balance of Payments

The Planning Commission's targets in the realm of the balance of payments and trade in turnovers with countries of II payments area (capitalist countries) are unclear. The problem of the relationship between the way of regulating our debt and the level of imports from II payments area has been noted. If it is not done so now, then at least in drawing up the draft of the plan we should basically develop these assumptions and targets all over again giving consideration to the results of the agreements reached with creditors and the concepts developed with several variants concerning future negotiations aimed at greatly relieving our national economy of the burdens it has.

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CURRENT, FUTURE ECONOMIC REFORM ASSESSED

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[Article by Wladyslaw Baka: "The Reform Today and Tomorrow"]

[Text] The implementation of the reform began in 1982. The reform goes further than all previous attempts directed at making changes in the way our economic system functions. The changes concern such issues as:

--the way in which reform proposals are prepared; previously a small secluded group worked out systems-type changes, while the principles of the present reform were worked out on the basis of a broad public discussion;

--the scope of the reform; previous reforms were basically limited to changes in the economic system, while the present reform covers all aspects of economic functioning;

--links to sociopolitical mechanisms; previous reforms did not address sociopolitical issues (except for the workers' councils of 1956), while the present reform is seen as part of a broad front of changes that include the development of socialist-democratic institutions and changes in the functioning of social mechanisms;

--the institutionalization of systems-type solutions; previous changes were introduced through low-level legal acts that could be, and were changed from one day to the next, while at present foundations are built for a reform affecting the highest legal-constitutional level;

--the intensity of the political will regarding the implementation of the reform; previously the intensity was low even at the outset and it became even lower as time passed, while at present the state-political authorities are fully determined to implement the reform;

The above features of the current reform give it breadth and a dynamic quality. However, they clash with the current conditions that do not favor making comprehensive systems-type changes. The conditions include:

--the economic situation; i.e. serious deficit of many production factors, lack of balance regarding all dimensions of economic life, and lack of sufficiently strong economic ties among different aspects of the economy;

--insufficient involvement of social forces on behalf of the reform; at present an intense activity, lacking in the past, is conducted by the party; however, the management personnel is less involved than e.g. during the first half of the seventies, although it should be noted that there are positive changes in this area;

--limited support for the reform on the part of the society; systems-type changes introduced in the past were usually combined with a quick improvement in the standard of living, and that favorably disposed people toward the implemented systems-type innovations; however, at present, wide-range price increases and a lower standard of living--the unavoidable results of the crisis that are not contingent on the implementation of the systems-type reform, are treated as "the price of the reform," which makes gaining support for the reform very difficult. In addition, last year many "Solidarity" and other groups presented a very attractive but false idea of the reform. According to them, the reform was to lead to solving all the economic problems in the country simultaneously. Of course, this is impossible. However, the economic demagoguery left a permanent impression in the consciousness of the society. This, combined with rather limited trust of the authorities, had a negative effect on the attitude toward the reform.

The Reform and Martial Law

While evaluating the first phase of the reform implementation, the issue of introducing martial law has to be addressed since it is a significant factor shaping the situation in the country in 1982. The 13 December, 1981 bill returned order and elementary social discipline and created conditions necessary for the implementation of the reform. It is true that regulations and limitations of martial law somewhat narrowed the scope of the reform (militarization of some sectors of the economy) and halted the development of self-government for the time being. However, the rate of changes spurred by the reform in 1982 is without precedence at least since 1949, i.e. since the period of revolutionary changes in Poland.

Thus, the following changes took place: enterprises gained autonomy, intermediate links were eliminated in management, a new organizational structure was created (new type of associations), producer and retail prices were reformed, the financial system of enterprises was restructured, the system of planning and statistics was reformed, the banking system became autonomous, the principles of foreign trade were restructured, there were changes in the system of material-technological supplying and partial changes in the emoluments principles, the management of regional systems was decentralized, and new institutions (the Sejm Socioeconomic Council, Constitutional Tribunal, and State Tribunal) were created. The legislative process that regulates functioning of the economy according to the principles of the reform was considerably improved. These facts allow us to claim that "a crucial reform package" was introduced in order to organize and consolidate the economy according to new principles. "The reform calendar" presented in the basic document "Kierunki reformy gospodarczej" (Directions of the Economic Reform) is strictly adhered to.

Sometimes views are expressed that martial law "ruined" the social aspect of the reform and the reform lost its identity. The claim "this is not the same reform" is difficult to understand.

Firstly, if not for martial law, there would have been nothing left to reform, there would have been no reform, and, consequently, there would have been no question of developing the social aspect of the reform.

Secondly, since the very beginning (since 17 December--the date of the special resolution) the authorities supported employee autonomy as one of the pillars of the reform.

Thirdly, opportunities have been created (more and more the advantage is taken of them) for activating self-governments even during martial law. For example, on 30 November, 1982 out of 6504 enterprises that are active in the national economy, suspension of the activities of self-governments were abrogated in 2709 enterprises and 500 suggestions are being processed.

Economic Limitations

In "Directions of Reform" it is stated that a 3-year transition period is needed in view of the difficult economic situation and also because of the complete lack of structural balance. During this period it will be necessary to apply solutions that differ from objective-oriented solutions. They should be chosen in such a way as to cause as little collision as possible with the logic of the new system and to pave the way for a speedy removal of restrictions. Economic conditions are in 1982 much more difficult than it was expected in 1981. This is due to restrictions inflicted by western countries. The catastrophic situation of the first half of the year (an over 30 percent decrease in import of raw materials and components from capitalist countries) improved significantly during the second half of the year as a result of help from USSR and advanced adaptive procedures implemented by enterprises.

Operational programs were developed to deal with limitations of raw materials and the necessity of insuring production of elementary goods. However, in practice, the idea of the programs was considerably distorted. The number and capacity of the programs grew excessively. In many cases the priority lost its subjective character and stopped being a priority. However, despite a popular view that the programs are "the Trojan horse of the reform" helping force administrative methods, in practice, there were few cases of the use of injunctions to get enterprises to participate in an operational program. In fact, there were cases of "eliminating" enterprises from the list of those implementing operational programs. Their number and capacity will be significantly reduced. The scope of the programs is designed to prevent using up more than 25-30 percent of the deficit raw materials.

There are also significant problems concerning state control of consumption goods and so called uniform territorial distribution of deficit goods. The use of traditional distribution to solve these problems contradicts the principles of the reform. It is, therefore, proposed that application

of the principle of obligatory central agency service to about 20-30 percent of production (government orders) of deficit goods be considered. This would allow for central intervention into enterprises' territorial distribution without affecting the principle of their autonomy.

Concerning the issue of making foreign exchange available to enterprises, in general, the system of calculating foreign-exchange allowances is working and their role should increase, according to evaluations. However, the principles governing the central steering of foreign exchange allowances should be improved. Access of the enterprises that are nonexporters and do not participate in either operational programs or central imports to foreign exchange also needs to be regulated. The proposal concerning introduction of the sale of foreign exchange in limited quantity and priced according to commercial course was not approved by the Council of Ministers on the grounds that "the state should not base the sale of foreign exchange on user's prices". The sale based on the "efficiency-type bidding" was proposed instead. However, this category has not been defined yet, and it is doubtful that it will be possible to specify criteria for its practical use.

There has been nothing in the reform, from its outset, that would limit enterprises in shaping size and structure of employment. However, it should be noted that there are serious anomalies in this area. In 1981 due to the fear of unemployment a decision was adopted to make early retirement possible based on the hypothesis that about 200,000 persons would take advantage of it. However, during the period between 1981 and 1983 only 500,000 persons will have retired. This will have a negative impact on the employment market, especially since the mechanism discouraging decreased employment was introduced in 1982, i.e. taxing moderate wages for FAZ [Vocational Activation Fund]. Thus, the decision concerning earlier retirements and systems-type solutions that were discussed above should be seen as "mistakes with human face". They lead to the excess of the offers of employment when compared with the number of persons seeking employment. The fear of unemployment has been replaced by the threat of insufficient employment. As a result of decreases in the rate of the increase of work resources, the actual state of the employment market, and the mood of the society, in 1983 a modification of the principles of FAZ taxes will take place to help increase efficiency of employment and adjust its size to real needs.

Prices

The principle of the "universal zloty" is an important feature of the reform. According to this principle, every zloty of the financial outcome is treated the same way, independently of the way it was acquired (e.g. through decrease of either material cost or labor-intensiveness, utilization of fixed assets, quality improvement, an increase of production either for export or domestic market, increase in either prices or in volume of sales). There will be no differentiation, such as using the larger part of profit for bonuses if it increases as a result of savings on materials rather than, e.g. as a result of a production increase.

It is sometimes suggested that we should return to "differentiation of zlotys" based on their source since such system functioned in the past.

However, we should realize that it would mean returning to methods that did not work. Experience shows that this solution cannot be successful. Cost-effectiveness as a decisionmaking instrument of enterprises would have a negative effect on the solution. This would lead to "filing" financial resources (according to whether they result from "lower material costs", "an increase in labor productivity", "quality improvement", "increase in export production", etc.). The position of zloty and of economic ties would be undermined as a result. In the final analysis we would have to give up the basic principles of the reform.

Undoubtedly, "profit differentiation" tendencies become stronger when reform mechanisms are less effective in getting enterprises to follow needed directions, such as a real cost decrease fullest possible utilization of production apparatus, an increase in labor productivity, better production quality, and better adjustment of its structure to the needs of the national economy. These tendencies will also be strengthened by manifestations of the pathology of the system expressed especially in the tendency of enterprises to achieving maximal price hikes and exploiting both market imbalance and monopolistic positions. We should be aware of enterprises' ability to achieve "positive" financial outcomes while having low levels of both production activities and utilization of production factors. In order to counteract this danger, special attention should be given to the principle of shaping costs and prices. In this respect, this year's government resolutions introduced new elements that will make the issue of costs more orderly. These decisions are a result of systems-type regulations that are in their entirety in agreement with both the spirit and the letter of the reform.

Concerning the market for consumption products, about 40 percent of the value of goods and services are covered by official prices, about 15 percent are covered by regulated prices, about 45 percent are covered by contract prices. Concerning the supply market, the proportions are as follows: official prices cover about 20 percent, regulated prices cover 5 percent, and contract prices cover 75 percent.

Experience shows that there should be no reservations concerning official prices. However, there are substantial problems concerning both regulated and contract prices.

Concerning regulated prices, the problem is that their scope for 1982 is defined haphazardly due to reasons including social pressure and inaccurate diagnosis of the problem.

In 1983 the list of products covered by regulated prices will be extended. Raw materials and more important intermediate products will be included. This is of great importance at this time, when many enterprises manufacture final products covered by either official or regulated prices and supplying in raw and other materials is defined on the basis of contract prices

for industrial goods. On the other hand, many people made speedy purchases of goods after new prices were introduced. This shows the fear of further price increases and considerable "market hunger".

Even preliminary research shows that many enterprises really started putting very high prices on their products. This action was in part due to the lack of understanding of financial mechanisms and the assumption of unlimited market capacity. It is significant, however, that after a few weeks excessively high prices dropped for some goods. This was due not only to socioadministrative pressure. Enterprises encountered the "demand barrier". In the system of price-market relationship threats were encountered, which included:

--in the situation that lacks restraining mechanisms, the inflationary price increase will be excessively developed in conditions of considerable actual and foreign-exchange limitations; this may lead to degeneration of the whole economic mechanism in the area of incentives;

--giving in to social pressure too quickly may result in administration-orders type of government activities that may be too far-reaching; this may also lead to degeneration of the system of incentives.

There are two basic ways of counteracting these tendencies. Principles and functioning of the system of prices and taxes should be improved in such a way as to make it impossible for enterprises to achieve "monopoly profit", i.e. high economic outcomes through limiting the size of production and increasing sale prices. To this end, such measures have been taken, as making it possible to deprive enterprises of the right to apply contract prices in cases when either conditions are not right for applying them (e.g., elementary market balance or potential competition) or it has been proven that the enterprise uses monopolistic practices.

During the first phase of the reform the "safe" formula was adopted. The formula is based on high graduated income taxes for enterprises. It is largely a result of the fear of social effects of difficult to predict income differentiation of enterprises. It should be noted that the data for the first half of 1982 confirm the thesis that there is a considerable differentiation of enterprises' incomes calculated by the accomplished profitability. The data also show that graduated income tax was an important factor levelling often unjustified real effects of differences in shaping profits for distribution. In 1983 progression will be somewhat alleviated for profitability starting with 30-50 percent. Even more significant will be introduction of a developed system of tax reductions. Enterprises will have to undertake specific activities as a condition for being awarded reductions. The reductions will significantly (by about 20 percent) decrease the income tax.

Wages and FAZ

The most significant link in the economic system of the enterprise is the emoluments system. Delays in reconciling principles of emoluments

with principles of the reform are partially due to objective factors. Widespread reclaiming movements concerning wages took place in 1981, and trade unions exerted much pressure. In this situation it was very difficult to conduct a public discussion on the subject of principles of emoluments seen as an integral part of the economic reform. Furthermore, the country was faced with a substantial change concerning the level and relations of prices. Only in the first half of 1982 there were conditions for undertaking the issue of the reform of the principles of emoluments.

On the basis of appropriate resolutions of the Council of Ministers, enterprises acquired freedom for shaping emoluments according to their needs. They decide to what degree and what scope will time, time-bonus, piece-work, and other emolument forms have. The choice of the forms serving objectives of the enterprise constitute the central problem of the plant's wage policy. However, insufficient attention and care is given to this problem in practice. Freedom of choice does not automatically mean that choices that are made are correct. Forms of emoluments need to be adjusted to work conditions, technology, and organization of work and production, as well as to the structure of the work force, its expectations, and system of values. Thus, choices have to be based on knowledge, experience, and extensive effectiveness analysis of currently applied wage forms.

In order to reconcile wage increases with demands of market balance, a graduated tax of average wage increases was introduced. The taxing threshold and its scope are defined every year on the basis of the projected money market situation. Resources acquired from the tax are used for FAZ. The FAZ fund is used to finance training of employees and cover expenses pertaining to changes in the employment structure.

Adopted in 1982, the principle of FAZ tax is a controversial solution. Taxing an increase of the average wage may lead to an artificial increase of the number of unskilled and low-paid employees in order to raise even more wages of other employees and to avoid graduated FAZ tax. Of course, such a "strategy" is pathological, but it should be expected to appear. The possibility of its appearance shows that not all conditions for proper functioning of economic mechanisms have been either satisfied or understood by the plants' management. After all, under normal conditions this is a "strategy on short legs". Excessive employment raises costs and causes difficulties when attempts are made to increase emoluments' resources, unless the effects of increases are transferred to prices and covered by society over a long period of time.

It is difficult not to see defects of the current FAZ tax system. Two aspects are of special importance. First, the range in wages increases since 1 percent is different for the average salary equalling 8,000 zlotys and for 15,000 zlotys. Second, the system does not encourage efficient employment. Solutions adopted for 1983 do away with taxing average emoluments, and the increase of the sum total of emoluments will be taxed instead. A standard of the proportion of the increase of the sum total of emoluments to the increase in net sales production was set in order to define the FAZ tax "threshold". Different conditions under which

enterprises function are considered, and differentiation of the standard is allowed with 0.5-0.6 limits.

In order to avoid favoritism in "awarding" the standard, it is necessary to define the criteria for increasing it. Otherwise favoritism may erase universal aspect of systems-type solutions and lead to a decline in the relationship between the enterprise and the state administration.

Organizational Changes

Far-reaching organizational changes were introduced. The number of economic sectors was decreased, and associations were eliminated. There was a widespread opinion that a simultaneous action concerning two echelons will end in a catastrophe and a total anarchy in the national economy. However, these alarming views were not confirmed in practice. "Abandoned" enterprises manage better than they did under the care of supervisory units. The process of forming new organizational structures is not over yet. Neither is it free of danger. Every major transformation of a functioning system entails changes in the organizational structure and in the system of competencies. Therefore, it is opposed by some managers and employees of the institutions that are being either reorganized or eliminated. Fears for the position and role in the plant, for income and other benefits, for the ability to adjust and to function according to new rules come to the fore. The following three kinds of attitudes should be expected:

--attempts to alleviate the "impact" of the reform, i.e. to water down its principles and make either only surface changes or partial changes, based on the claim that the "objective situation" requires it;

--on all out attack against the reform linked with the abuse of socialist content:

--keeping low profile, lack of involvement, and seeking positions-retreats.

These attitudes have significantly contributed to the failure of many good ideas. The story of associations, which in the second half of the 1950s were created as units serving enterprises, is the case in point. The associations soon became an echelon of indirect management and a very important link in the hierarchical administrative structure managing the economy. Currently efforts are made to make sure that voluntary associations (as well as obligatory associations) do not become like the eliminated associations. This is a very real threat to the reform. There is a very strong tendency of organizing enterprises that become similar to eliminated associations regarding the subject of activities. It is true that current legal regulations protect enterprises from the excessive interference of central administrative bodies. However, they do not form a sufficient barrier for creating subsector-branch monopoly-like organizations (for seeking protection). This issue is also of importance because subsector concentration is in the interest of many enterprises that view it as protection from the need to make efforts to improve their own results.

The process of shaping functions and functioning methods for central administrations and regional bodies of state administration is currently under way. At present we are only beginning to form ways in which the links will function in accord with the demands of the reform. The struggle with old habits is even more difficult because of the lack of developed and prepared for use scholarly works and training manuals pertaining to the new technology of functioning for those units. Other unfavorable factors include the set of difficult economic circumstances and political situation that push the administrative bodies in the direction of short-range, trouble-shooting type activities. This practice is spreading and this may soon lead to the return and consolidation of the old methods of functioning.

Economic Policy

In the course of work on the reform, much attention was paid to the necessity of close links between economic policy and systems-type solutions. There are two aspects to this issue.

First of all, central decisions need to be made to create conditions for functioning of reform mechanisms. The central issue here is the question of the economic balance. Every decision that brings the economy closer to the state of balance contributes to the implementation of the reform. The opposite is also true: decisions that excessively increase either market or investment demand destroy chances for the reform mechanisms to "work". This key thesis is more and more widely understood among the management. However, implementing it poses many difficulties. This is because we have not yet mastered the difficult art of solving the problem of "the excess of necessary objectives". We have not yet created effective social mechanisms needed to solve it.

Second of all, we need to insure the compatibility of decisions that are made. The decisions should also be formulated according to the spirit and the letter of the reform. In the past systems-type solutions had no connection whatsoever with the implemented plan. Neither in the fifties, nor in the sixties and the seventies were attempts of any significance made to integrate the plan with systems-type changes. The first such attempt was made in the course of work on the 1983 plan, and it is being developed during the current phase of preparations for the 3-year plan. Experience has shown that there is a methodological barrier because neither economics nor the management science have advanced their research to the degree that would allow to base on their findings integration of the plan and the system. This is partially understandable. The effective demand and the necessary experience were not available. Thus, we have to look to experience to find practical solutions for this problem. It is hoped that a strong stimulus for intensifying scientific research has been created in this area.

It is worth mentioning that the Council of Ministers introduced the duty of verification of new decisions from the point of view of their compatibility with bills that introduced the reform. This shows that efforts are made

consistently abide by the law as the condition for implementing the reform. It is without doubt that founding of the Constitutional Tribunal and the Tribunal of State has had a positive effect.

Social Dilemmas

Even more than the orders-distribution system the reform brings to the surface basic dilemmas of socialist economy. They include contradictions between social-moral values of socialism (i.e. wages according to work, social protection and security, and the right to work) and the conditions needed to achieve economic progress (e.g. observing economic rules, wide scope of personal responsibility, incentives, differentiation of income, and initiative and flexibility). Much research has already been done regarding this problem (e.g. works of J. Kornai and J. Pajestka). At present the basic dilemmas have become further aggravated due to the very difficult economic situation in which the reform is being implemented. And, if we wanted to define the most important determining factor of the future of the reform, I believe that the ability of solving basic dilemmas in both conceptual dimension and social practice would have to be named. It is necessary to distinguish between these two aspects since theoretically correct solutions may be rejected by the society: Thus, it is very important to be aware of the conditions and the elements that determine readiness of the society for accepting given solutions.

In the specific situation there is a choice: If the principle of the reform and, consequently, substantial income differentiation among employees in a given plant and among enterprises will be implemented, the market mechanism will be used to stimulate production, we may be able to overcome the crisis and start on the road to progress. But, if the equalizing tendencies will come to the fore, the state control of consumer goods will increase, and we will give up forever, or at least for a long time, the hope of overcoming difficulties. As a result, we will become a "ration-card" society for a long time to come.

Furthermore, the principle of full employment should be corrected, i.e. the state will be obligated to insure employment for everybody, but only in occupations and areas that are in accord with interests of the society. Otherwise, excessive employment in the name of "public tranquility" will continue and positions will be created according to projections, often incorrect, based on the number and structure of education.

And finally, we can consistently implement and apply the principle of self-financing combined with the possibility of the enterprise's bankruptcy, or the state will protect enterprises from economic laws.

The problems discussed above are not impossible to solve. However, implementing the idea of socialism at the present stage requires a fundamentally new approach. Basic changes are needed in social consciousness. In our society's consciousness the asymmetrical image of socialism as "giving" rather than "demanding" is deeply rooted. This onesided view is due to such factors as the formulation of the basic economic law of socialism,

according to which the production increase is a result of advanced technology, a gift of nature that happens without any participation of a man, and does not depend on his attitude exhibited during the work process, etc. It has had a strong impact on generations of young people who were raised expecting that their needs will be fulfilled year after year. Sudden decrease in the living standard that took place at the end of the seventies and at the beginning of the eighties was a brutal economic lesson for the society. Now it is important to learn from it. The nature of economic processes should be understood by our society, and the knowledge of the causes of the nation's wealth should be known to at least a larger part of the society. However, this cannot be accomplished by even most attractive forms of propaganda and training. This knowledge has to be acquired through experience. The way to it is mainly through consistent implementation of the reform principles in every enterprise.

9959

CSO: 2600/183

DIFFICULT MARKET SITUATION, PRIVATE INCOME, EXPENDITURES ASSESSED

Warsaw ZYCIE GOSPODARCZE in Polish No 48/49, 19-26 Dec 82 pp 4,5

[Article by Marek Misiak: "The Market -- Not Like Christmas; Material From the Central Statistical Office"]

[Text] This year the holiday table is not abundantly laden. The way to improvement in the market is unfortunately still a long way off. We cannot expect a rapid or easy return to the precrisis standard of living. Statistical data show that the market situation is complicated.

Hence, the year's end produced a rise in the population's nominal cash income that was greater than previous months. In the months before, the rise in prices greatly exceeded the increase in earnings and other cash income of the population. At the present time, this disparity has somewhat declined. In industry the increase in wages also felt the impact of a decrease in the production decline trends and recently a certain increase in production, but this still was not such a great rise in production and market supply to balance the demand. A great share of the increase in production was allocated for technical-material supply and for export. Hence, the nominal cash reserves of the population increased, and the build-up of stock in trade is very slow and is still barely noticeable. A decided majority of foodstuffs and a substantial share of nonfood items still have to have ration cards, coupons, and other forms of controlled distribution. Nevertheless, let us take a look at the figures.

The population's cash income from the socialized economy in November of this year amounted to 337.6 billion zlotys, an increase of 62.8 percent compared to last November. Employees received remuneration including compensation amounting to 158.2 billion zlotys, which means an increase of 48.6 percent. Income from the sales of farm products for socialized procurement totalled 81.8 billion zlotys, up 51.4 percent, and social services amounted to 59.7 billion zlotys, up 124.6 percent. During the 11-month period, the population's cash income totalled 2,037.3 billion zlotys (a 61-percent increase compared to 11 months last year). Employee remuneration including compensation (excluding family members) totalled 1,564.4 billion zlotys (an increase of 43.8 percent). Income from the sales of farm products totalled 555.1 billion zlotys (an increase of 66.5 percent), and social services amounted to 574.3 billion zlotys (an increase of 140.2 percent). The population's cash income through

this entire year can be estimated at 3.4 trillion zlotys, employee remuneration (including employee compensation) at 1.75 trillion zlotys, income from the sales of farm products at about 63-65 billion zlotys, and social services also at a similar level of about 63-65 billion zlotys.

These figures show that the estimate's of this year's cash income of the population are too low in the CPR for 1983, because the assumption was that they would total 3.34 trillion zlotys, including 1.72 trillion for remuneration for employees, 63 billion for social services, and 60 billion for income from the sales of farm products.

The mean monthly wage in four basic sectors of the socialized economy (industry, construction, transport, and trade) together with employee compensation (excluding family members' compensation) amounted to 12,869 zlotys, 57.4 percent higher than last November. Similar data were found in extractive industry: 27,812 zlotys, up 79.1 percent; processing industry, with 12,076 zlotys, up 57.7 percent; construction, with 12,589 zlotys, up 52.8 percent; transport, with 11,872 zlotys, up 41 percent; communications, with 9,831 zlotys, up 43.3 percent, and trade, with 10,112 zlotys, up 42.5 percent. It is also worth mentioning that pay in these sectors in November will be far higher (by 467 zlotys) than in October. In the 11-month period the mean earnings in these sectors amounted to 11,074 zlotys, which means an increase of 48.2 percent in relation to last year. Hence, we can suppose that throughout 1982 it will amount to about 11,300 zlotys and will be nearly 50 percent higher than last year's. In relation to the costs of living, which the 10-months data show to have increased in families of workers employed in the socialized economy by 103 percent, this means a 26.1-percent decline in the ability to buy goods and services (here we are omitting the problem of the availability of goods in trade).

In the other sectors of the socialized economy (except for the basic sectors of the material sphere) the only data available are for 3 quarters. From them we can conclude that during this period nominal wages increased most slowly in the sectors of science and the development of technology (32.7 percent), housing economy and nonmaterial municipal services (39.1 percent), municipal economy (42 percent), finance and insurance (42.7 percent), state administration and justice (43.1 percent).

On the other hand, the mean monthly pension and annuity including compensation currently amounted in the period from January to November to 5,653, an increase of 64.7 percent over the similar period the year before. The costs of living of pensioners and annuitants' families, however, also rose at a rate higher than that of employee families (a greater share of the expenditures went for food), 112.4 percent (data for 10 months). The possibility of buying foods and services, therefore, declined here by 22.5 percent.

The population's cash income this November amounted to 294.3 billion zlotys, which represents an increase of 75.6 percent over last November, and of this expenditures to buy goods reached a level of 239.8 billion zlotys, which means an increase of 87 percent in these expenditures. Hence, the rise

in expenditures to buy goods was more rapid than that of the total cash expenditures of the population. Cash expenditures in the period from January to November amounted to 2,676 billion zlotys altogether and were 64.4 percent higher than during a similar period last year. Expenditures to buy goods during this period amounted to 2,214.8 billion zlotys and were 73.1 percent higher.

Hence, for 1982 altogether the population's cash expenditures will probably exceed 3 trillion zlotys, and expenditures to buy goods will probably reach a level of about 2.5 trillion. This more or less corresponds to the population's cash outlays projected in the work on the CPR.

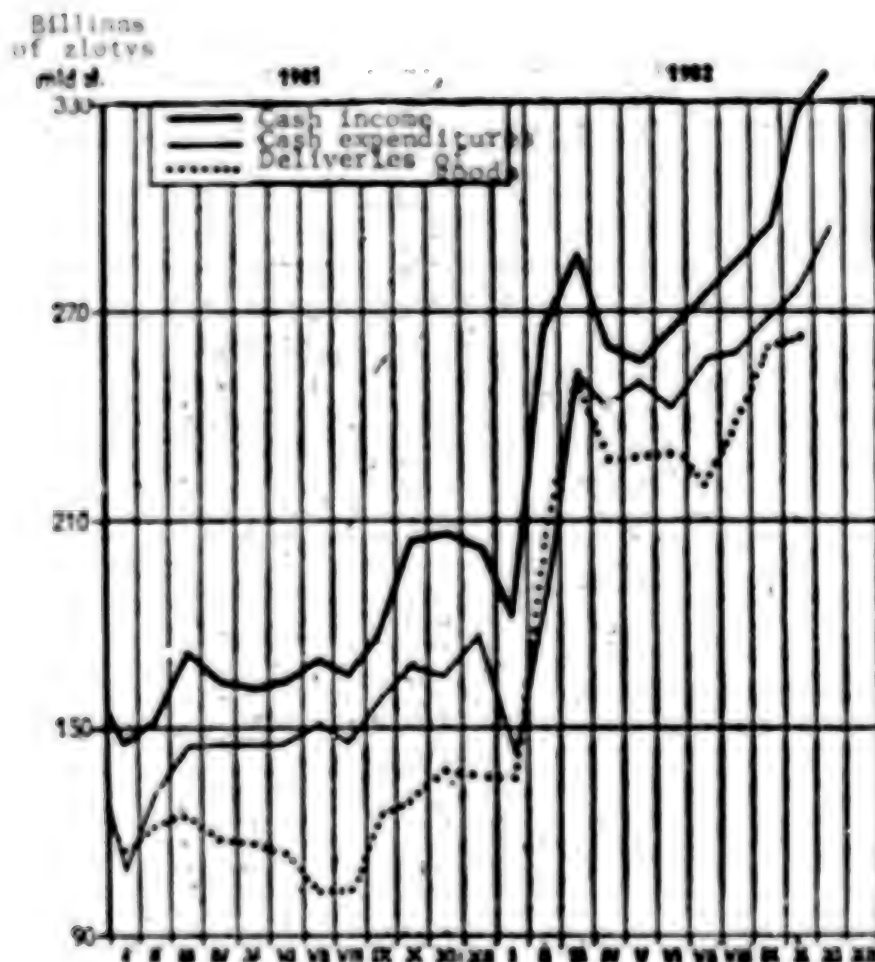
The population's cash reserves this November amounted to 43.3 billion zlotys, and 20.8 billion of this went for savings, with 22.5 billion remaining as cash. During the 11 months, the increase in cash reserves approximated 361.3 billion zlotys, including savings deposits of 160 billion and about 201.3 billion in cash. As a result, the total cash reserves at the end of November amounted to about 1.41 trillion zlotys, including about 572 billion in cash reserves.

It should be noted that there was an increase in the amount of the monthly growth of the cash reserves of the population beginning in October of this year. After a period of great increase in cash reserves this January and February, there was a decline during the next months of some magnitude. In relation to the funds available (gross cash income of the population minus taxes, fees, and repayment of credit), it was as follows: 12.4 percent in March, 5.9 percent in April, 2 percent in May, 8.1 percent in June, 7 percent in July, 9 percent in August, 8.8 percent in September, 16.4 percent in October, and 13.6 percent in November.

Hence, we can expect cash reserves at the end of 1982 to reach a level of about 1.45 trillion zlotys, including about 60 billion in cash. The work on the CPR projected a rise in cash reserves of the population in 1982 to be at a lower level, which at the end of the year would produce a population cash income level of 1.43 trillion zlotys.

This November the value of socialized economy units' retail sales of goods amounted to 252.2 billion zlotys, with the breakdown of sales as follows: 79.1 billion zlotys for food, 37.2 billion for liquor, and 135.9 billion for nonfood items. Compared to last November, the value of retail sales was about 94 percent higher in current prices. It is estimated that the value of food sales nearly doubled and the sales of liquor nearly tripled. The rise in the value of sales of nonfood items during this period amounted to about 69 percent.

After the estimated elimination of the results of the price increase, retail sales of commodities this November were about 8 percent lower than last November. Food sales declined by about 14 percent, and the sales of nonfood items declined by about 12 percent. On the other hand, sales of liquor increased by about 16 percent.



Rebuilding of stocks of goods in trade is going relatively slowly and at an uneven pace. It is estimated that the value of stocks of goods in market trade, wholesale and retail, as of 30 November of this year amounted to 325.8 billion zlotys in current retail prices. This amount can be broken down into 81.5 billion zlotys for stocks of foodstuffs (including liquor) and 244.3 billion zlotys for stocks of nonfood items. The foodstuffs group showed stocks of potatoes and apples to be higher decidedly than during a similar period last year, while the supply of vegetables was lower. Stocks of coal were far higher (400 percent) in the nonfood group.

More detailed data on stocks in trade come from the end of this past September. They show a certain increase in stock (compared to a similar period last year) of wheat flour, polished rice, sugar, and spaghetti. At the end of this September, stocks of grits and coffee were lower than last September. In the liquor group, there was an increase in the stocks of all types. It is

estimated that after the effects of the price increases are removed, the increases in stocks of plain vodka increased by about 60 percent, the stocks of specialty liquors increased by about 30 percent, and the stocks of mead and wines increased by about 20 percent.

In the nonfood group, low levels of stocks remained for goods of light industry. In comparison to the level at the end of September of last year, there was a decline in the stocks of wool and wool synthetic fabrics, in silk and silk synthetics, and in cotton and cotton synthetics. Stocks of linen fabrics remained at the level of September of last year. Compared to last year's level, there was a decline of 2.6 million pairs of shoes (30 percent) for leather, plastic, and synthetic footwear. There was also a decline (in terms of value, at current prices) in the stocks of knitwear, goods of the clothing industry, and goods of the hosiery industry. On the other hand, there was somewhat of an increase in stocks of certain durable goods. There was also an increase in the stocks of laundry powders and agents, toilet soap, special soaps, and cigarettes.

The situation is also unfavorable on the services market. This November the sales of services to the population amounted to 29.8 billion zlotys, and was only 45.4 percent higher than November of last year. The sales of services this November was 6 million zlotys (2 percent) lower than last November, but this October the growth rate of the sales of services for the population in current prices (last year's level -- 136.9 percent) was far lower than that achieved in previous months (about 160 percent). Compared to this September, the sales of services declined in October by about 1.3 percent, while last year the value of sales achieved in October was 6.7 percent higher than September's sales. The adverse phenomena of decline in service sales for services to the population are particularly prominent in the everyday services group.

The adverse situation in the sales of services is shown particularly in their decline in fixed prices. During the first quarter, the volume of services rendered was 8-9 percent lower than during the first quarter of last year. During the first half of the year and the 3 quarters the decline already amounted to 11.0 and 11.7 percent, respectively, and in October of this year it reached way up to 20 percent (compared to comparable periods the previous year).

10790

CSO: 2600/182

FUEL-ENERGY DEVELOPMENTS, PROBLEMS ASSESSED

Fuel-Energy Problems

Warsaw SZTANDAR MLODYCH in Polish 13 Dec 82 p3

[Article by Jacek Swidzinski: "What Shall We Burn? -- Fuel and Power Balance Sheet"]

[Text] The chaotic investment policy of the 1970's has been one cause of the fact that the Polish economy is running into an energy barrier, so that each winter there is the fear that the strained balance-sheet may cave in. The coal industry's good results this year cannot get rid of all the fears.

Electric Power. In fall and winter maximum demand is generally from 400 to 1,200 megawatts higher than the average monthly value, and if we add breakdowns to this, then the increase in demand resulting from very low outside temperatures in the extreme case may push the shortfall to even 1,200-2,000 megawatts. For this reason the government has taken steps to see that the economy does not run short of power. The following decisions were made:

To make full use of the possibility of increasing the supply of power, for example by pushing power units to their technically permitted limits,

to maximize power imports from CEMA countries,

to set in motion the power-generating equipment which has been held in reserve.

At the same time a plan has been drawn up to reduce the consumption of electric power, with the following points:

Reduce street lighting by 25 percent,

Reduce electric power consumptions, especially that of the large industrial consumers, introducing rotating blocks to lower power consumption on an hourly and seasonal basis.

Altogether this will permit a reduction in consumption amounting to from 2,500 to 2,800 megawatts, but limits will still be in effect for electric power consumption with respect to more than 7,000 enterprises. According to the Main Inspectorate of Power Management, despite this there is still the possibility of better, more thrifty use of electric power, which could make it possible to fully satisfy present demand.

Hard Coal. Social and economic stability in the country have become the most evident in extractive industry, especially with regard to hard coal. It is projected that by the end of the year about 179 million tons of coal will be extracted, partly as the result of mining on free Saturdays. Coal deliveries are presently greater than the daily consumption of coal, making it possible to build up reserves to planned levels, projected at about 21.5 million tons, including stocks in steel-mill and port storehouses. This is a record in the history of People's Poland. We can make a comparison with last year after all:

-- in industry the stocks this year amount to about 13.5 million tons, compared to about 7.5 million last year,

-- in public-utility power plants there is about 4.5 million tons compared to about 3 million tons last year,

-- Samopomoc Chlopska has about 1.2 million tons compared to 200,000 tons last year, and

-- municipal thermoelectric plants have about 2.9 million tons compared to 1.2 million tons last year.

But this rich situation causes problems. More and more often we hear about spontaneous fires in the storehouses, a whole 83 percent of which have no equipment to make proper measurements of the temperature of lower layers of coal at dumping grounds.

Quality unfortunately does not necessarily follow quantity. Everyone knows that the most sought-after kinds are chunky "fat" coal. In 1978 these "sorts" (that is what the official name is) represented 21 percent, but this year the share fell to 18 percent of total deliveries, and this is the result of mechanized extraction.

Nonetheless, 2.5 million tons more "chunky" coal is being sent to the market than last year. The percentage decline in the better grades of coal in extraction plus the simultaneous direction to market needs will make it necessary to adapt industrial boiler furnaces to burn smaller grades.

Coke. Although things are going well with coal, there have been problems with coke this year and next year will see more of them. Many coke-oven batteries' long life came to an end in past years, but we are going to have to wait for new ones. For example, the coking industry is to get a shot in the arm from the four new batteries at the Katowice Steel Mill, but these four are not supposed to be finished until the end of 1984.

It is anticipated that this year coke production will approximate 18.2 million tons, including about 16.9 million tons of steel-mill coke. This is 700,000 tons less than last year. We are bound to worry about GIG's statement that coking coal is not being optimally utilized, but we have to remember that this grade of coal is receiving increasingly higher export prices. The temporary difficulties should not hide the problem.

Gas. GIG analyses show that there is cause to fear that low outside temperatures may create such a great demand for gas fuels that there will be a shortage, particularly for high-methane natural gas and coking gas. We are less afraid of a shortage of nitrified natural gas. We import gas (over half) from the Soviet Union. The figures adopted up to this time call for us to receive about 22 percent of our annual import during the first quarter of 1983. Initial calculations of the demand for high-methane gas show that we will have to ask the Soviet Union to send us more, up to a quarter of our annual import. The size of the shortfall facing us during the first 3 months next year will depend on how long the low temperatures continue.

Alongside the shortage of high-methane natural gas, we should count on a shortage of coking gas and a slight shortage of nitrified gas.

Two ministries consume 90 percent of the gas, the metallurgy and engineering industry and the chemical industry. Half is used by a dozen and some large consumers (the whole time we are talking about allotment consumers). Hence, we should rationalize gas consumption in the large industrial plants, because we see no other way to reduce demand.

Crude Oil. This year Polish refineries will refine about 13.2 million tons of crude oil, and next year we anticipate an increase of about 300,000 tons. Nearly all the crude oil is imported from the USSR. Given the restricted demand, the refining of crude oil for gasoline, diesel oils, and other partly-finished products takes on particular significance. Alongside motor gasoline, an important item for industry is pyrolytic gasoline, later processed into plastics. Out of the approximately 3 million tons of motogas to be produced next year, more than 1.6 million tons is to go to supply the population, and altogether this should supply the demand resulting from the current system of government control [rationing].

On the other hand, there can be minor upsets in the realm of diesel oil supply. Imports of this fuel will be reduced by about 300,000 tons,

owing to the need to make equivalent increases in the size of gasoline imports. We will have to allocate 140,000 tons of this oil for the needs of the fishing fleet operating in the deep-sea fishing grounds. In 1983 diesel oil deliveries should amount to about 4.7 million tons, despite the fact that we can expect a shortage on the order of 250,000 tons beginning to be noticeable even during the 1st quarter of next year.

After giving up on the export of diesel oil II (designated for low-rotation rate engines) we will see a certain surplus which may serve as a substitute for diesel oil I in heating processes.

Another difficult situation will appear in the supply of fuel oil. Only the most important needs of the power industry and metallurgy can be met next year, because imports on the order of 240,000 tons simply limit the room to maneuver to a minimum, and the deliveries for all other customers are going to be far lower than this year's.

Brown Coal. This year about 37 million tons of brown coal will be extracted in Poland, but in 1983 more than 40 million tons should be mined in connection with the further expansion of the strip mines in Belchatow and the beginning of operations at the Lubstow mine. Almost all brown coal is designated for the needs of the public-utility power plants. After all, we have written more extensively about brown coal in SZTANDAR MŁODYCH, 3-5 December.

Thermal Power. Thermal deliveries depend directly on the level of supply of coal at the electric power plants, and at the present time we do not have any real problems here. Nonetheless, in a dozen and some towns the moment the outside temperature drops there can be a noticeable shortage of power capacity in the thermal plants and thermoelectric power plants, because prior to 15 October 77 percent of the projected repairs had been made to steam boilers and turbines. We should count on the fact that in certain regions of the country there can still be shortages of power from the poor technical condition of local and industrial thermal plants.

Summing up, we will still have problems with balancing the supply and demand of fuels and power, although the shortage will be less serious than last year. Our own mining industry will have an important role in improving the situation, but given our dependence on imports from natural causes, we will still give priority to all sorts of thrift measures.

Fuel-Energy Consumption Shortfalls

Warsaw TRYBUNA LUDU in Polish 22 Dec 82 p 4

[Interview with Minister Jerzy Wojcicki, Chief Inspector of Power Management, by Andrzej Kozminski: "Ennervating the Economy -- Thinking About Fuel and Energy"]

[Text] The Tenth Party Plenum attached great significance to fuel and power. This was expressed in the separate resolution, in which the party's Central Committee pointed out the necessity of taking action to accomplish the following: increase the mining of hard and brown coal and natural gas extraction, base the power industry's development on brown coal and carry out a program to build a nuclear-power industry, and also to reduce electric power transmission losses, employ thrift in the use of fuels.

As it is presented in the light of the resolution of the plenum of the party's Central Committee, the plan for fuel and power consumption to the year 1985 is an interesting topic for comparison with the tasks of the National Socioeconomic Plan for the years 1983-1985 for the entire economy. We asked Minister Jerzy Wojcicki, Chief Inspector of Power Management, to discuss these two aspects.

[Answer] I think that the size of fuel and power consumption in 1983-1985 is the result of, as well as a condition to, the targets assumed in the plan. Tasks in all sectors of the economy determine the scope of the fuel and energy needs. And, conversely, the achievement of these tasks depends on the provision for adequate supplies of fuel and power, because we must not include new tensions [as an inevitable element] in our calculations in the plan to get the economy out of the crisis.

[Question] But you have to take into account the realities that exist: Under current conditions the state simply cannot afford to satisfy the developmental ambitions of every branch of the economy, even if they are supported by the most convincing rationale.

[Answer] Nobody builds a house without a foundation. If we are to expand the food complex or accelerate the rate of housing construction, this cannot be done without providing the necessary quantities of fuel and power, both for investments in these areas and for their later exploitation.

It is not enough merely to build new houses. You have then to heat them, provide the apartments with hot water, or else gas or coal. Our agriculture also suffers from a low level of mechanization, and therefore also

The fact of the low electric-power consumption in comparison to other countries in Europe requires fuel and power.

If fuel and power are scarce, then the programs for the development of agriculture, construction, or any area of the economy will simply turn out to be unrealistic.

[Question] How can we program now the national economy's real demand for fuels to the year 1985 and beyond and the possibilities of meeting this demand?

[Answer] We are completely clear about two items on the balance-sheet: There will be plenty of brown coal. There will be about 3 billion cubic meters of gas too little, this figure representing more than one-fifth of the demand in 1985. Therefore this will not happen without the activation of exploration of new deposits and an essential increase in imports of gas from the USSR.

On the other hand, the mining of hard coal, even to the year 1990 from new seams and mines, including the Lublin Basin, will only cover the decline in extraction in the seams and mines already being mined. Hence, it will remain at this year's level, that is, about 189 million tons. If we continue exports at 30 million tons per year (more than 33 million tons in 1983), given the rise in electric power production from generating plants burning brown coal and power imports from the Chmielnicka nuclear plant in the USSR, if we save about 2 million tons up to 1985, then the balance of hard coal consumption and extraction would seem to be even.

On the other hand, even assuming that hard coal exports remain at the same level and that there are further substantial savings in consumption, in coming years it would be essential at the same time to increase extraction up to 195-200 million tons in 1990. This is possible to achieve, if the necessary investments in mining are made early enough.

We are not mining enough "chunky" coal used by the population for heating purposes. This year the shortfall will approximate 3 million tons. Mechanization does not help increase the mining of large coal, but the demand for it will have to be met alongside by encouraging the residents of small towns and villages to use substitute fuels, such as timber, small hard coal, and so on. We must also accelerate construction of briquet plants, especially for brown coal. Large coal can be replaced with coke, which in turn means reproducing the production capacity of the coking plants and building new gas-coking plants.

[Question] The Tenth Party Plenum's resolution on fuel and energy management recommends taking urgent steps to save fuels, including liquid fuels. We will have to wait for the results of these efforts, however. Given even a minimum increase in the use of automotive transportation, do you think it is realistic to wait 8 years for a return to the 1978 level of

liquid fuel consumption? This year, as we recall, the country's refineries refined 17 million tons of crude oil.

[Answer] Taking all sorts of savings into account, we have underestimated liquid fuel consumption in the conception of the plan for 1983-1985. Given the needs of industry, which consumes substantial amounts of oil, fuel oil and diesel; transportation; and agriculture, with a progressive rise in mechanization and automotive development in both the socialized and private sectors (required state deliveries of more than 200,000 motor vehicles per year from prepayments), already by 1985 17 million tons of crude oil should be refined in the country, along with maintaining imports at about 3 million tons of finished petroleum products. It is also necessary to begin construction on a new refinery or to expand existing ones to meet the economy's demand for liquid fuels in 1990.

[Question] Is this realistic? Can our economy afford to increase crude oil imports from the dollar zone? As everyone knows the Soviet Union cannot sell us anymore than about 13 million tons of crude oil per year.

[Answer] The economy is bound by economic theory. Both in the area of the development of automotive transportation and petrochemical industry, the stability and gradual development of the economy depend on increased imports of crude oil. Otherwise we face the danger of having the recession become permanent. Therefore the return to the pre-crisis level of production should be spread over not 3 years but a longer period of time. Fuels are essential to transportation, maritime shipping), but part of the petroleum products will have to go for refining into chemical products.

[Question] We seem to have plenty of electric power. Is there cause for optimism in the future?

[Answer] I do not share this optimism. This year we are producing nearly 117 billion kilowatthours of electric power. Although industry is using a little less electric power than it did in 1976. All the rest of the consumer, including the population and the municipal economy, are using more and more year by year. Therefore, in order to return to the economy's 1979 production level, it will be necessary to produce far more power than previously and more than provided for in the targets of the plan to the year 1985, that is, 130 billion kilowatthours. Any further development of the power industry must be based on brown coal and then on nuclear power too. This was confirmed in the resolutions of the Tenth Party Plenum.

[Question] The initial concept of the plan for 1983-1985 proposes limiting the program for building thermoelectric plants and central heat-generating plants, in favor of building local boiler plants.

[Answer] Slowing up the program for the development of thermal plants would only mean substantial power and economic losses. To force the construction of local boiler plants of low thermal output would be to

bring about increased consumption of coal, especially large coal and coke, which are already scarce today. This would incline residents also to use scarce electric power to heat their apartments. This would cause the freezing of outlays already made to build the thermal system. Finally, it would increase the environmental pollution from fumes, contrary to the targets of the plan in this area. At our request, in the realm of thermal-plant development, appropriate improvements are to be introduced into the plan.

[Question] To meet the economy's needs, then, Mr Minister, you are calling for the further development of fuel extraction and some increase in imports, for the development of power industry and a heat-generating system. But after all these needs can be reduced through thrift with all conveyors of power, and the resolution of the Tenth Party Plenum calls for this.

[Answer] One does not preclude the other; they must both be done at the same time. The increased fuel deliveries for the developing economy must be accompanied by thrifty consumption.

[Question] In this realm, what is the role of the chief inspector for power management?

[Answer] The main task of the chief inspector of power management is to take action to help save fuel and power. The economy's losses can be prevented mainly by counteracting waste. Another current is the rationalization of management by improving the efficiency of technological processes and power-industry changes, improving shipping in transportation, and also reducing materials-intensiveness of goods, because a lower consumption of materials also brings about savings of fuels and power.

Our Power Management Research and Development Center estimates the real scope of fuel and power savings to be from 14 to 20 million tons of conventional fuel in 1990. Outlays to gain a unit of power as the result of rationalization and improvement are far lower than the investment outlays to gain it, but the period to achieve the effects is about half as long. It is necessary to commit outlays of many millions for this purpose though. We have to tell ourselves clearly that rationalizing the consumption of fuel and power is a sort of additional source of them for the economy.

[Question] Mr Minister, what do you think the relationship of development of fuel and power management should be to the development of the entire national economy?

[Answer] Ahead of time, with a thought to the future, at least to the 1990's, we should provide for appropriate increases in obtaining fuels and in the production of thermal and electric power, as well as rationalizing their consumption. Electric-power-plant and coal-mine construction take about 10 years. The power industry needs investment a decade ahead, to prevent a shortage of power when the economy really has to have it, be-

cause the development of the economy depends on providing it with an adequate supply of fuel and power. To fail to meet this condition would mean to run the risk of new tensions right during the stage of getting out of the crisis.

Mining, Power Industry Production

Warsaw POLITYKA in Polish 4 Dec 82 p 3

[Interview with Gen Dyw Czesław Piotrowski, Minister of Mining and Power Industry, by Zygmunt Szeliga: "Miners Doing Their Part"]

[Text] [Question] General, this is the first interview we are doing for publication. I would therefore like to include not only coal and mining problems but also you yourself, Sir, who has been appointed after 37 years of military service to head, perhaps against your own wishes, a great complicated and very specific civil government department. I admit that last July, not knowing anything about you but a great deal about the mining industry and the ministry, I was somewhat disturbed and worried when I learned of your appointment. Today it may be perhaps with satisfaction that you received well-deserved congratulations. This year we do not have many successes in the economy, but the results of the mining and power industry are surely the greatest successes.

[Answer] It is not I who deserve the congratulations but the whole corps of ministry employees, especially the miners and the power-industry people. As with any minister, my being minister is a transitory thing. In our economy, however, the miners' good work is a lasting tradition, one which was hit during the past 2 years but is now returning.

[Question] Fine, so let us talk about the successes of the miners first of all. Last year the disastrously low extraction of coal for our needs and conditions produced 163 million tons. A year ago, on the edge of winter, I like many people thought about the prospects of the boilers' going out in the electric and thermoelectric plants, about the minimal coal that factories and farms and households had on hand, which meant there was the danger of just about shutting down the whole economy, of Polish coal's disappearing from world markets, which would mean unavoidable bankruptcy for Poland. But who today remembers about these fears and worries, which after all are recent nonetheless? Unless I am wrong, there will be no shortage of coal for anyone this year. Let us present a more exact description of the balance.

[Answer] Up to the end of November we mined nearly 174 million tons, which means 11.5 million tons more than all last year and 4 million tons more than called for in this year's careful plan. On an annual scale extraction will amount to 188-189 million tons, 25-26 million tons more than last year. Up to now we have exported more than 26 million tons, and over the entire year we will have exported on the order of 30 million

year, nearly twice what we exported in 1961, and here there was a greater increase in exports in the dollar one, which is especially important to us, not only in terms of foreign exchange but also in terms of Poland's return to difficult markets, from which we were dropped out owing to the destructive antiexport measures of our country and foreign competition, especially from American coal. This year industry is receiving 3.5 million tons more, and it has stocks to permit normal operations without any fear of running short of fuel. All power needs have been met, and this year there have not been any cutoffs. The reserves accumulated in the power industry insure against any shortages of electric or thermal power, and if there is a drop, it will only be because of a power plant failure or breakdown. The market and municipal economy are receiving nearly 35 million tons, or nearly 5 million tons more than last year, and more overall than at any previous time in the past.

[Question] It is true that the old "iron" subject, the shortage of coal, has almost disappeared altogether this year in both urban and rural areas, but not completely, because there are still some complaints in the rural areas.

[Answer] Some of these are allowing for growth. We checked into some of the complaints and found that they come from people who have coal reserves to cover several years. Part of the shortage being felt comes from the fact that rural buyers want to buy only large coal, and we do not have enough of it. The transport barrier is also very important. The market could provide more, if the railroads could carry more. After all, overall output this year would be at least 2-3 million tons higher, if the railroads had collected the coal from the mines at an even rate. At many mines there were a number of work stoppages, sometimes for hours on end, solely because of the shortage of coal cars at the surface.

[Question] Last year sales were introduced which called for private buyers with their own transportation to get their coal directly from the mines. Perhaps we should expand this system.

[Answer] The mines will sell coal under this system, but what sort of scale are we talking about? several hundred thousand, maybe a million tons over the course of a year. Generally speaking, we are going to have to overcome the transport barrier, but this is important not only for coal and for mining but also for the entire economy.

[Question] General, coal sales to the private buyer who comes to the mine has importance which is not only or even perhaps mainly economic so much as psychological. In a previous conversation you told me something which made me particularly happy coming as it did from the head of that ministry. You said that in Poland the sense of a shortage of coal had to disappear. Now, in my estimation, the first step in that direction is the fact that there may be a shortage of coal at the nearest warehouse, but I can go to the mine and buy it there. Of course,

not many people will avail themselves of the privilege, but this will also improve the situation of others.

[Answer] All right, I support your view, and we will be making a greater effort to see that the recent general feeling that coal is scarce becomes a thing of the past, but let me add an important note: Meeting the need must not be equated with carelessness and waste. It must be and is everyone's duty to make thrifty use of coal and to rationalize its consumption. We have a great deal to do here.

[Question] We are happy about the miners' success, but this year I sometimes had the impression that they are sort of a nuisance for some people. Are your observations similar?

[Answer] Yes, on two levels, the political and the economic. On the political plane the mining industry's good work overturned our internal and external adversaries' arguments saying that Poland would never be able to get out of the crisis. During the past 2 years, the Americans stepping in to take over our coal markets in Western Europe were very sure of themselves and assured everyone that Poland had no chance of becoming a great exporter again soon or perhaps ever. At home too, after all, we have people saying that all economic efforts were doomed to failure and decline. On the economic plane the miners' good work sort of eliminated the alibis of many people and many enterprises. For many months we had been hearing that the work would be going much better and the results would have been incomparably better, if only there had not been a shortage of coal, power, and heat. It was the ambition of the ministry's leadership and the entire ministry to see that the economy did not have this pretext. And indeed this year none of the large consumers could hide behind that argument. Therefore they lost the argument justifying their own shabby results which indeed had been true during the 2 years before. The miners are doing their part. They are providing an opportunity for the rest of the economy...

[Question] We have been talking up till now about the results of mining. Now it is time to discuss the reason behind this success. This issue creates a great deal of confusion and doubt. For example, we have heard it said that the high level of coal extraction is merely the result of the militarization of the mines and forced labor or else sort of "buying off" the miners with privileges and hiked-up wages. It is true that when I was in Silesia [Slask] I did not see army detachments in the mines watching the miners, and one does not sense any atmosphere of force, but the militarization of the mines is a fact, just as the high level of earnings is.

[Answer] First let us decide what militarization means. It introduced the duty to work. It expanded discipline and established the principle of one-man leadership. The specific nature of mining calls for greater discipline than is required elsewhere, including efficient, forthright

leadership by a single person. I already said at the beginning of our interview that these are basically traditional features of our miners. Hence, militarization is just one method for getting these values back. In itself, however, it would not have done any good, if it had not been supported by the traditional mining morality and strong economic incentives. Over 10 months this year the mean annual remuneration of mine employees in coal mining amounted to nearly 22,000 zlotys, or more than 7,000 zlotys more than last year. This is an increase of more than 58 percent. But 6,355 zlotys per month of this total came from working on Saturdays and other legal holidays. If we leave out the additional pay for the additional work, then this year the mean remuneration in the mining industry only increased by 19 percent. Meanwhile, throughout industry, which generally enjoys Saturdays off, mean earnings during the same period went up 52 percent. For a five-day workweek, the miner today receives not much more than an employee of industry. Now, if the miner's total pay is calculated into the wage per hour worked, it turns out that the increase calculated in relation to last year is far less than the average in industry and, let us say, the whole economy. So how were they bought off?

[Question] General, I noticed in Silesia that the miners' earnings of 20-30,000 zlotys and up do not particularly arouse the emotions of people from other branches of industry. There people simply have a better understanding than people in other regions of the country have of the principle that for harder work or additional work you have to pay people better. On the other hand, there is more confusion created by other things, like special ration cards, special shops in which you can buy just about everything not available to mere mortals. So it is a question not so much of the greater money but what you can do with it, different money, sort of.

[Answer] Yes, this is sort of a problem, but did we have any other way out? After all, we could not offer the miners just money without the possibility of making good use of it. And the market situation is the way it is. Let us compare these things: On the one hand a certain decline in market deliveries in order to supply the miners, and on the other, the possibility of increasing the production of these goods owing to the extra 26 million tons of coal that is mined, because this is what we get from Saturday work. I think there can be no doubt as to which of the two considerations is the more important. Besides, insofar as the good supply of commodities in the miners' shops is concerned, people are exaggerating. Much remains to be desired.

[Question] Besides the incentives and better discipline, are there other factors involved in the mining industry's successes?

[Answer] Two matters are particularly important. First, in the ministry we have our own engineering industry adapted to the production of complete installations and spare parts. It has been working well all year, expanding total production by 3 percent, including spare-parts production by 15 percent. This industry is practically entirely independent of

deliveries imported from abroad, so that supply difficulties are felt less. On the other hand, for the mining and power industry increased deliveries of machinery and equipment, especially spare parts, have been very important and have had a favorable impact on improved work. Next, unless I am mistaken we are the only ministry this year not to reduce investments. Owing to this fact we are obtaining 18,900 tons of new extraction capacity per day, 1,000 tons more than this year's plan called for. The power industry this year is putting new turbine sets with total capacity of 2,000 megawatts into operation this year, and this is far more than the 1,630 megawatts called for in the plan.

[Question] General, let us talk about the costs of success now. Are we not paying too high a price for this undoubted improvement in mining results? There are the high extraction costs, the decline in the quality of the coal, and numerous accidents on the job. These are the accusations which are made frequently.

[Answer] We cannot agree with the arguments. Let us start with the costs. We have 66 active mines, not counting Bogdanka, which is being put into operation now. The Piast mine is the cheapest for mining coal, only 1,200 zlotys per ton. Only a few dozen zlotys more per ton is the cost of the coal produced in the Ziemowit, Lenin, Andaluzja, and Makoszowy mines. In the next 34 mines the direct cost is under 2,000 zlotys. There are 20 mines which extract coal for from 2,000 to 2,500 zlotys per ton and one that produces at 2,700. In the Nowa Ruda, Gliwice, and Walbrzych mines the extraction cost runs between 3,800 zlotys and 4,300 zlotys per ton. The cost at Thorez mine exceeds 5,000, at Viktoria it is 7,500, and finally, at the ZMP mine the cost is nearly 9,000 zlotys. This last case can be left out, because it is a new mine which is still far from reaching its full extraction capacity. The other "expensive" mines are working under the most difficult geological conditions but at the same time produce the best coal, which the economy needs. If we were to apply the criterion of profitability individually for each of the mines, then we have 32 mines in which the extraction cost is lower than the selling price the coal brings (the price depends on the grade and runs from 1,100 zlotys to over 3,000 zlotys for the best coking coal from the Moszczenica, Manifest Lipowy, Gliwice, and Viktoria mines), but we have adopted the principle in our economic system of what is called compensatory accounting and the mean internal price of the ministry. For a dozen and some mines this mean price is lower than the selling price and for the rest, higher. This theory is based on the assumption that the grade of the coal extracted from a given mine, after all, is independent of it, and the miner's effort is basically the same. So, if we have a very good deposit, the mine would get undeserved additional profit if the calculations and clearing of accounts depended on the selling price, while another mine on a poor deposit would suffer an undeserved deficit. The internal price evens out these conditions. In calculations using this price, 64 mines are operating at a profit, and only two are running in the red, Szombierki and ZMP. Here I need to add two other important comments. First, in our country we have

official prices for coal. On the other hand, the mines buy the materials and equipment they need at contract and regulated prices for the most part, and these are higher by far than the official prices. Second, everything I am saying about extraction costs and profitability applies only to current costs and this at reduced amortization rates. This calculation does not give any consideration at all to essential investment outlays for the development of mining capacity.

[Question] I read this to mean that the realistic setting of the amortization rates (which after all is true of all industrial production) along with the consideration of investment outlays will cause a great increase in extraction costs and therefore, under the conditions of the new economic system, a rise in prices.

[Answer] This seems unavoidable and applies to more than just coal and mining after all. At any rate, in considering this year's results, we can by no means say that they were paid for with an excessive rise in extraction costs, and as for quality, not only has it not become worse but, on the contrary, there has been clear improvement. The new principles of accounting for the mines have resulted in the fact that what is coming out of them is really coal, without rocks and so on. Both the internal, ministry quality control and that of the consumers has confirmed this unequivocally. Finally, the last accusation, accidents. It is hardest to talk about this, because this year we had five group accidents, three at Dymitrowie and two at Viktoria. We are pained by each accident. It is particularly difficult to take the last group accident at Dymitrowie, in which the mine rescuers were killed, that is, those people who risk their lives to save others. We heartily sympathize with the families of those who fell at their work stations. The loss of each miner is a wound that takes a long time to heal. Unfortunately, the miner's profession continues to be difficult and dangerous. Strong, courageous people perform it. All the more reason for respect for those who do this work. Unfortunately mining is the area in which the forces of nature reveal themselves, sometimes with tragic consequences. Science and technology are to a great extent helpless. There is even a column in world statistics which I personally dislike very much and which I do not use: fatal accidents per million tons mined. Human life has a value which cannot be measured, and no arguments or justifications are convincing. However, we cannot accept the accusation that this year there was such a devastating increase in accidents. There were far worse years before. Of course we attach great significance to this matter. Industrial safety is one of the top concerns of the entire ministry. The matter is difficult, owing to the natural conditions mentioned above and the influx of new personnel into mining. We have 30,000 new employees, just about all of them without exception young, careless, often negligent of the principles of industrial hygiene and safety, and sometimes even full of reckless abandon and fantasies which sometimes end in injury or even death.

[Question] General, we could talk about power, mining, and coal issues for many more hours, but today I am bringing this area to a close, because I want to come back to the subject I mentioned at the beginning, you yourself. Are you satisfied with your past 17 months? What has worked for you? To what extent have you accomplished your intentions in your position as minister? Was it at all difficult to "get in" to the ministry?

[Answer] I previously headed the engineering armies. This is an exceptionally complicated military arm. Because of this I was familiar with many problems typical of the mining and power industry. After all, engineering armies also are involved in work that is part mining, having to do with construction, including great problems of safety, work under difficult conditions, and so on. New to me were the organizational problems and also partly the economic ones, and I had to learn about them. I have found in the mining and power industry a lot of fine people who are very committed, patriots of their branch of industry. I have tried to give these people maximum authority and independents in carrying out their responsibilities. I think that this has worked. What have I been successful at? You ought to have other people assess this. I have another comment here: not I but we. I consider two things to be the most important. We saved the mining and power industry from falling apart and we provided for not only stability but a substantial increase in production. Second, we managed with relatively little conflict to integrate two previously divided ministries, mining industry and power industry. At the moment the new ministry was created, there were many fears here about the traditional conflicts and contradictions between the two.

[Question] And do you still have a sense of hunger, of dissatisfaction, General, a conviction that more could be accomplished?

[Answer] I think that in any situation one can and should have such a conviction, because this allows one to formulate new goals and tasks, but you have to make a realistic assessments of the possibilities. Now under the real 1982 conditions, taking the country's whole economic situation into account, I think that we in mining could not achieve much more than we really did manage to achieve.

[Question] I share your view. Thank you for the interview, General.

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MINISTER DISCUSSES CHEMICAL SUPPLIES FOR AGRICULTURE

Warsaw CHLOPSKA DROGA in Polish 26-29 Dec 82 pp 6, 7

[Interview with Edward Grzywa, minister of Chemical and Light Industry,
by Anna Turska]

[Text] [Question] Chemical industry should be growing 1.5-2 times faster than the remaining subsectors of our industry. However, from the beginning of the 1970s there has been a steady decline of this [economic] indicator; at present, this decline has already become quite serious. When will this important branch of industry begin to grow?

[Answer] I also would like to know the answer to this question. However, there is no simple answer. Indeed, in the 1960s our chemical industry was growing much faster than our entire industry. There exists a concept which is called the coefficient of advancement beyond the growth rate of chemical industry. It is the ratio of outlays earmarked for the development of chemical industry to outlays for entire industry. Worldwide, this ratio ranges from 1.3 to 1.8. In the past we also achieved an advancement within these limits. A rapid decline began in 1973, when the program of application of chemicals in national economy had been formulated. This may sound paradoxical, but the greatest decline in our chemical industry dates back precisely to 1973. During the final years of the previous five-year plan, this coefficient decreased to 0.8; thus, in practical terms, there was a decline when compared with our industry as a whole. The slogan of application of chemicals in national economy became, in fact, elimination of chemicals.

The consequences of this are being felt by us now both in the market and in coproduction supply. And, as the most recent findings show, the situation could be even worse than our very modest planning. Namely, in the first quarter we must begin to import additional large quantities of grain. This has caused me considerable concern, because it means taking money away from our ministry as well, 65 per cent of the foreign exchange funds from the so-called central purchases being spent to buy grain. It means that wool will not be bought in sufficient quantity and in advance, that we will not buy rubber, and that smoke-black and other raw materials and products will not be bought, and that for this reason many plants will simply not produce. At this moment I am unable to say whether the antici-

pated tire production will be implemented during next year. We are doing our best to produce more rubber footwear; we are trying to operate a third shift, to work on Saturdays, and to attract more employees. And all this may turn out to have been in vain, because there will be nothing to produce from.

[Question] Is it possible to determine which part of the chemical industry production is earmarked for agriculture and food economy?

[Answer] No, this cannot be determined. Of course, one could portion out insecticides, a certain quantity of tires and fuel, as well as fertilizer. But agriculture also utilizes plastics, paints, packaging materials for food industry, etc. We have an established market for our products both in agriculture and in food industry; thus, it would be rather impossible and unnecessary to make any kind of apportionment.

[Question] If the production potential of the fertilizer industry declines, so declines the application of fertilizer. What actions to at least halt this decline are anticipated by the ministry? When can we expect growth in this branch of chemical industry?

[Answer] This potential is not declining so rapidly, owing to tremendous efforts of people who manufacture fertilizer. During previous years and, as a matter of fact, during each five-year plan, new and larger fertilizer plants were built: Pulawy, Wloclawek...

[Question] And now we have a new plant in Police.

[Answer] There were no new plants built during the most recent five-year plan. The new plant in Police will begin production only during next year, and there are no prospects of any new plants being built. The number of new plants is not increasing; and among old plants there are some that have been operating since before World War II, e.g., Chorzow and Tarnow, or plants that were built immediately after the war, e.g. Kedzierzyn. These plants have been operated beyond their capacity. And one of the characteristics of chemical industry is the need to replace worn-out equipment, similar to the need to replenish raw materials in other branches of industry.

We also have problems with transportation of fertilizer from plants. For example, failure to have railroad cars brought to the Pulawy plant means a loss of 3.5 thousand tons of fertilizer. This is an irrecoverable loss which can never be made up. Fertilizer is not available in sufficient quantities, and farmers in some regions do not buy it.

[Question] It is alleged that fertilizer prices are the main reason for this...

[Answer] Prices?! Fertilizer prices are ridiculously low as compared with the cost of production and with world prices. If it is possible to buy a

quintal of fertilizer for less than a quintal of grain, then what kind of a ratio is this? And, as I hear from the farmers themselves, a kilogram of fertilizer produces an increase of 4 kg. in grain yield. The prices [of fertilizer] are not too high. Perhaps there would be less waste in the utilization of fertilizer if prices were still higher? We still have much to accomplish in this area.

During the next few years, in the fertilizer industry we can only hope for an additional output from the new plant in Police, because there will be no other investments in new plants. We will not be able to afford imports [of fertilizer]; thus, we must look for other possibilities: slow-action fertilizer, covered with a protective sheath; application of nitrification inhibitors or chemicals which delay the decomposition of nitrogen fertilizer; more uniform application of fertilizer. The production of fertilizer during next year will approximate the present production; on the other hand, there will be no imports.

[Question] We use approximately 0.3 kg of active substance of insecticides per hectare, i.e., disastrously little. Many plans for developing production of pesticides have not been implemented. What are the possibilities in this area? Is lack of production capacity the only obstacle, or is it lack of adequate scientific research facilities?

[Answer] We use more than 0.3 kg [per hectare]. To tell the truth, we are in the last place in CEMA in this respect, but we use an average of 0.48-0.49 kg of active substance per hectare. This is very little. Some people believe that this is good, because we do not poison ourselves. Such a statement is nonsense, because properly applied insecticides do not produce harmful effects. What are our problems in this area? First of all, our production capacity is limited. During the entire postwar period we have spent ridiculously small amounts on investments in this area. During the past ten to twenty years we have built the only complete production plant in Jaworzno—"Chlorphenvinphos" ("Enolophos"). However, this is not a comprehensive investment, either; it lacks a semifinished products plant and, consequently, there is still a need for considerable though somewhat smaller imports.

We have prepared many technical processes and we are ready for investments requiring only limited imports of machinery and equipment; but there are no funds for such investments. I believe that within the limits of allocations for agriculture and food economy, our ministries should also have comprehensive plans for agriculture-oriented production.

[Question] Pesticides, in particular, have a direct influence on the rate of agricultural production...

[Answer] I believe that insecticides make it possible to attain much higher increase in yields than does fertilizer, at the present rate of the application of the latter.

Last year we made considerable quantitative and qualitative progress in the

production of pesticides. Our progress was due also the fact that we have a good technological cadre in plants that manufacture insecticides. Next year, the situation will be even better. However, any increase in production will depend on the availability of foreign exchange funds to purchase needed concentrates, components, semifinished products, and raw materials. We need approximately 90 million dollars for these imports, including 42 million dollars for ready-made [chemical] products and 46 million dollars for concentrates. And we already should have a portion of these funds, approximately one-third, in order not have to make our purchases at the last moment. Sales are made during the season, but our plants must operate at the same pace during the entire year.

However, additional grain purchases may create a problem for us. If we buy grain, then we will not buy insecticides; the grain yield will be smaller, and we will again have to buy grain. This is a vicious circle.

[Question] Machine industry and agriculture are experiencing serious shortages of tires, tubes, and V-belts. Is it necessary and possible to expand plants which manufacture these articles, or is it also possible to improve the situation through other types of action?

[Answer] The No. 2 District Automobile Tire Plant [OZOS II] in Olsztyn, which is to produce tires for agriculture, has been completed. No additional plants are being built. However, even the existing production capacity is not being fully utilized due to lack of employees. In the tire plants we need 1500 more persons. If we had them, we could produce 50 percent more tires than during the current year.

[Question] So, production is determined not by raw materials but by employment?...

[Answer] This year we have had no problems concerning [purchases] of raw materials, but next year, due to higher than anticipated expenditures for grain purchases, there may be a shortage of raw materials. Our imports have been planned in advance; however, no purchases will be made if there are no funds. Our production of tractor tires, farm machinery tires, farm truck and trailer tires will be only a few percent lower. Agriculture has been given special consideration because, for example, there will be a sizable decrease in the production of tires for passenger automobiles.

The total production capacity of the tire industry is 8.3 million tires, the quantity that we used to produce in the past, whereas this year our production will amount to 5.2 million tires.

Next year we anticipate a 7 percent increase in the production of tractor tires, a 13 percent increase in the production of farm machinery tires, and a 15 percent increase in the production of tires for farm trucks and trailers, as compared with this year's production. This, however, depends on supplies of raw materials and on increase in employment. We see a possibility of improving the supply situation through consistent implementa-

tion of a retreading program. For the time being, we are implementing it quite well, considering how difficult the times are. We would like to bring about a situation in which approximately 3 million tires [a year] will be retreaded. Last year we retreaded 900,000 tires, and this year have retreaded almost 1.2 million.

[Question] When will it be possible to attain the goal of 3 million [retreaded tires]?

[Answer] I believe that it will be around the year 1986. We could succeed in retreading 250,000-300,000 more tires every year, the situation would be good. But the basic problem here is the procurement of tires for retreading. This is another vicious circle. Since there are no new tires available, old tires are not removed and retreaded. Tires are driven on until they are completely bald and no longer retreadable.

[Question] Rubber boots, or rather their shortage, is another major problem that vexes farmers. What are the production results in the rubber industry this year, and what are the prospects for the future? There is talk of allotting a pair of rubber boots to each rural family. Is this feasible?

[Answer] Nothing of the kind! There are not that many boots. We would need 3 million pairs for this purpose, whereas our total production of rubber work boots is 6 million pairs [a year]. Of these, large quantities are used by the mining industry, construction industry, and forestry. Only a portion [of the total output] is left for agriculture. In addition to rubber work boots we also make so-called rubber walking shoes, and this gives us an opportunity to increase the supplies of footwear, particularly of women's footwear, in the rural area. We produce a total of 20 million pairs of rubber and canvas-rubber shoes, but most of these are tennis shoes, sneakers, and half-sneakers, of which there is also a shortage.

If we had 1420 employees in our two factories in Grudziadz and Lodz, we would be able to produce 30-31 million pairs [annually], i.e., 10 million more pairs than now, as we did up to 1979. But people do not apply for work in our plants because of low wages and bad working conditions. The labor market in Lodz and Grudziadz is very limited. Again, it is not a problem of raw materials, particularly this year. However, it may be a problem next year, when it becomes necessary to buy more grain. This additional purchase will have a profound impact on our economy. The farmers will have to help themselves, while at the same time helping our economy. We need to produce additional grain, because otherwise there will be no footwear, tires, cord, V-belts, and paints and lacquers, which farmers also need and which are produced partly from imported raw materials.

[Question] Which articles can the chemical industry produce in greater quantities for agriculture next year? And, are there any such optimistic prospects?

[Answer] There has been a significant increase in the production of in-

secticides, and I believe that a further increase will occur. We also anticipate an increase in the production of cord. We are building a plant that will produce 4,000 tons of polypropylene cord, which represents an equivalent of 9,000 tons of sisal cord. In addition, many plants which are operated by our Ministry are beginning to produce cord from waste fiber, approximately 8,000-9,000 tons annually. Thus, there should be a visible improvement in this situation, though not completely meeting the rapidly increasing needs.

The picture which I have presented may seem rather negative. However, our activities are severely restricted by insufficient supply of manpower and raw materials. I do not like to make empty promises, which accounts for my perhaps excessive caution. But, while presenting these probable [production] figures, I should like to state clearly that regardless of the planned [production] figures all our efforts are aimed at increasing production, particularly for agriculture and [domestic] market, through utilization of domestic raw materials.

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